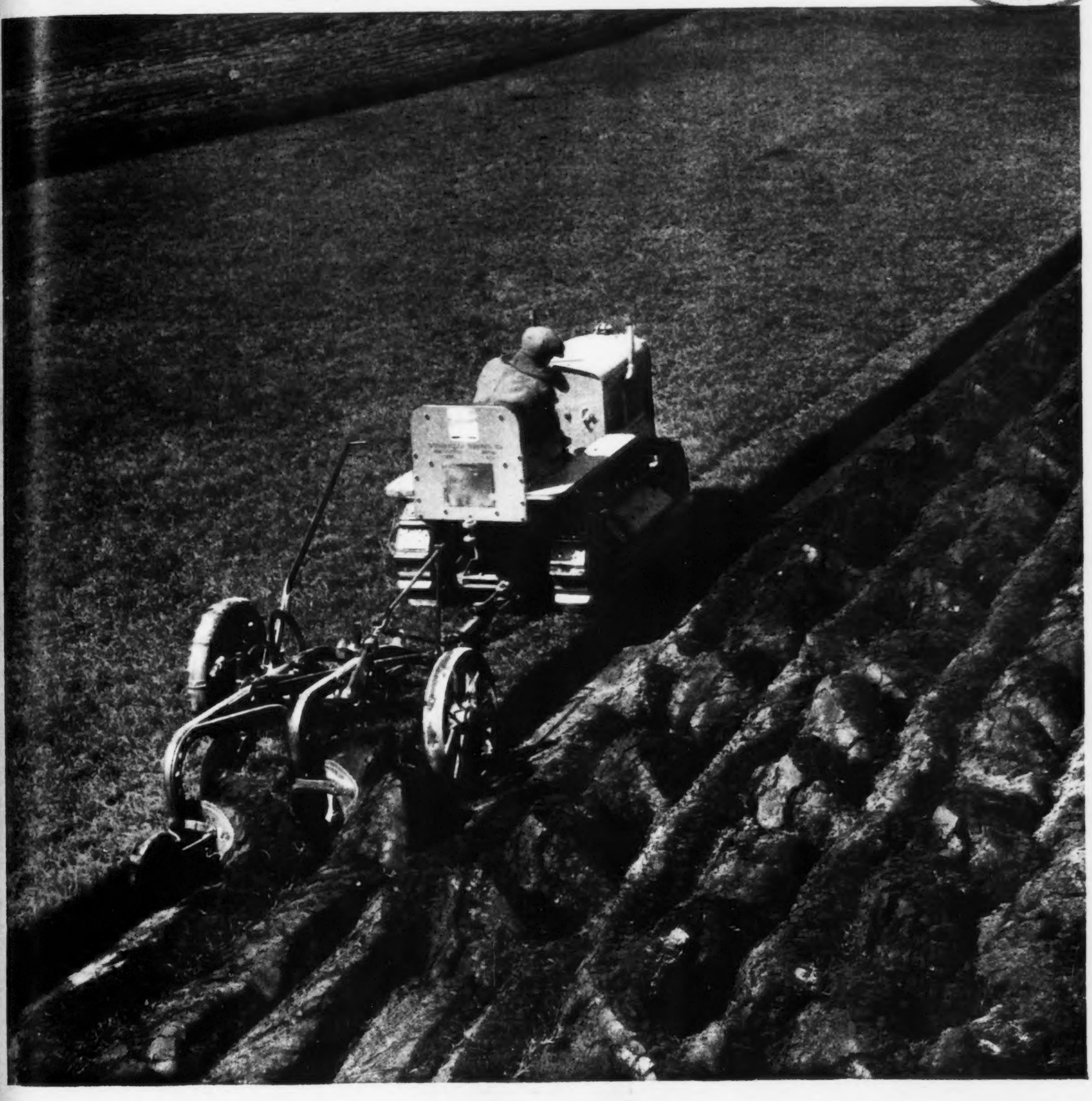
AMERICAN BANKERS Association JOURNAL



MAY 1932

The Dual Banking System

Directorships—Reorganizations—Employee Trusts

War Debts—Taxation—Crime

PUBLISHED IN TWO SECTIONS · SECTION ONE

Behind the Bond News

SINCE Congress assembled it has done a great deal of creditable work, but more recently it succeeded in nullifying some of the good effects of its earlier accomplishments. The bond market has reflected with great sensitiveness the abrupt shift in Congressional attitude and corporate obligations have given up the gains they had scored, although Government bonds and certain other tax-exempt issues have been more resistant to the forces making for declines in other sections of the list.

Out of Washington have come the following developments adversely affecting the bond market: (1) grudging approval by the Interstate Commerce Commission of the applications for loans filed with the Reconstruction Finance Corporation by some railroads; (2) delay in enacting the new revenue bill; (3) the proposed increase in surtaxes, which would penalize corporate securities and magnify the tendency of capital to take refuge in tax-exempt obligations; and (4) the threat contained in the Glass bill that bank holdings of bonds would have to be liquidated and the capital market disorganized.

Surely it is a curious state of affairs when one group of Senators is fostering legislation designed to restrict the amount of long-term loans which a bank can make, and another group is assailing the banks for seeking to have the Reconstruction Finance Corporation participate in short-term loans which are rapidly attaining the long-term status. No satisfactory answer has yet been given in the negative to the contention that, if it was in the public interest to keep freight rates low when times were good, it is then fair to ask the public interest, through the Reconstruction Finance Corporation, to share part of the inevitable consequences of that policy, which prevented the carriers from building up a surplus to tide them over the bad years.

IN recent months Washington has been critical also of the foreign loans floated here by international bankers, and at the same time the denunciation of our foreign loan policy has not died down abroad. On the one hand, some members of Congress are offended that Wall Street made so many loans abroad, but on the other hand, parts of Europe hold that we did not make enough loans. It can be seen, therefore, that there is little chance of pleasing both sets of critics. In such a situation one might guess that the truth lies somewhere between these opposing viewpoints, and closer inspection of the situation tends to bear out this surmise.

As for the charge that our rate of lending abroad is too irregular to make for world business stability, the figures are not available to support this viewpoint entirely, since the important money markets have not yet advanced to the point where they collect and publish complete data on the net foreign position. The Macmillan report issued in London last summer stated pointedly the case for gathering and publishing full data on the British position with respect to short-term funds; the figures on long-term issues are already available. The Federal Reserve Bank of New York is in possession of the essential information about this country's short- and long-term position, but it has not seen fit to share these data with the public.

On the basis of known facts, however, the London market hardly comes off any better than New York. From 1925 to 1928 there was offered in London a total of £482,000,000 of foreign loans, or an annual rate of £120,000,000. In 1929 the London market was in some difficulty because of the tight money condition which speculation in New York was causing. Yet in that year £94,000,000 of foreign loans was floated in London, equal to 78.3 per cent of the average for the previous four years.

IN comparison with that record the United States supplied a total of $4,789,000,000 of long-term capital to foreign countries in the period from 1925 to 1928, with the yearly average $1,197,000,000. In 1929, however, the foreign long-term offerings in this country, on account of the stiffening of money rates, dropped to $671,000,000, or just 56 per cent of the normal average for the four years immediately preceding. In 1930 the showing of this country in the long-term foreign loan field was $905,000,000 of offerings, as compared with £109,000,000 in London.

In this comparison London appears to emerge with the better showing. It would seem that Britain did not treat her debtors over-indulgently one year on long-term and stint them the next quite to the extent that this country did. And yet on short-term account the United States can present a record which the foreign critics must confess to be rather creditable.

When the hardening in money rates in 1929 virtually closed the market to long-term foreign bond issues we find that American bankers offset this development by increasing their short-term extensions to Europe and other parts of the world. Thus, through the acceptance market, $174,000,000 more credits were supplied to foreign interests in 1929 through an increase in bills drawn on goods stored in or shipped between foreign countries. In the same year we find American bankers extending $30,000,000 more abroad by means of bills drawn to create dollar exchange.

While long-term foreign loans floated here in 1929 fell $526,000,000 below normal for the period from 1925 to 1928, we find this shortage compensated for to the extent of $204,000,000 by known increases in short-term advances. These advances do not, of course, tell the whole story. As was publicly dis- (CONTINUED ON PAGE 731)

BANKING

THE Glass bill for a revision of the banking laws, which had been referred back to the subcommittee of the Senate Committee on Banking and Currency in January, on the ground that it was too deflationary in its provisions, was reported out again on March 17 and turned over to the full committee for consideration.

Hearings were commenced on the revised measure on March 23 and continued through March 30. The consensus of representative bankers who appeared before the committee was that the bill was still too drastic for immediate application.

Principal objections centered in the 15-day promissory note clause, the requirements for increased bank reserves, the proposal for a liquidating corporation for failed banks, and the section affecting collateral loans.

Hearings culminated in presentation of a 12,000-word criticism of the measure by Eugene Meyer on behalf of the Federal Reserve Board and an adverse report of the Federal Reserve Advisory Council.

Provoked by what he termed "organized opposition" to his bill, Senator Glass threatened, at the conclusion of the hearings, to call for an investigation of this concerted action. However, he did not press the idea, but took the bill back into subcommittee again and modified certain provisions to meet some of the objections.

Sixteen states reported no bank failures in the month of February, as follows: Maine, New Hampshire, Vermont, Rhode Island, Connecticut, New Jersey, North Dakota, Delaware, South Carolina, Alabama, Mississippi, Arkansas, Montana, Wyoming, New Mexico, and Arizona. Only one closing reported in New York State.

A measure was reported in course of preparation by the Federal Reserve Board which would bring about unification of the country's banks under the Federal Reserve; the presumption was it would follow the lines laid down by Owen D. Young in his testimony on the Glass bill in February, 1931.

GOVERNMENT FINANCE

THE period between March 18 and April 1 witnessed one of the stormiest sessions in the history of an American peace-time Congress.

A coalition of rebellious Democrats and Republicans, moved by common hostility to the sales tax provision of the Ways and Means Committee revenue bill, destroyed that carefully planned measure and virtually wrote their own bill on the floor of the House.

House leaders, unable to check the stampede, forced an adjournment on Saturday, March 19, when it became obvious that soak-the-rich advocates and special privilege seekers had got in the saddle.

Over the week-end, proponents of the sales tax agreed to omit food and clothing from its provisions in order to appease its foes, but the strategy failed. When Congress reconvened on Tuesday the insurgents, who had previously tacked amendments on to the bill raising the surtax and the nominal income tax, doubled the estate tax rate, making the new top level 45 per cent.

When the sales tax was brought up for a vote on Thursday, March 24, it was defeated decisively, 223–153. On Saturday, March 26, a new coalition of high tariff Democrats and Republicans seized control of the bill, writing a tariff of a cent a gallon on oil imports and 10 cents per 100 pounds on coal and coke imports.

A general orgy of tariff making was only halted by the appeal of Representative Crisp, who forced the Democrats back into line by pointing out to them that they were "destroying their own

party and making themselves ridiculous before the country". Asserting that "patience had ceased to be a virtue", the acting chairman of the Ways and Means Committee announced that he would vote against the whole bill if the stampede was not halted.

Crisp's forceful utterances, backed by evidences of mounting impatience throughout the country with the failure of Congress to balance the budget, had a sobering effect on the House, and when Speaker Garner called for a standing vote on the question of a balanced budget the next day—March 29—the response was unanimously in favor of such a program.

The House, the revolt quelled, thereupon set about the business of preparing a substitute plan for that of the Ways and Means Committee, which it had ruined.

By Friday, April 1, it had completed a bill calculated to raise $1,032,400,000, or enough, supplemented by $230,500,000 in Government economies, to balance the budget deficit of $1,241,000,000, with $21,900,000 to spare.

The wartime surtax of 65 per cent was stricken out of the bill in its final form.

The measure includes excise taxes on a long list of luxuries and quasi-luxuries calculated to yield $169,500,000; an increase in first class postage rates from 2 to 3 cents, to yield $135,000,000; lowered surtax and normal income tax exemptions; an increase in the corporation tax to 13½ per cent; and taxes on capital issues and security transfers.

The House bill represented the third attempt to write a tax bill, the first having been undertaken by the Treasury and the second by the Ways and Means Committee.

TARIFF

THE Senate, on April 1, passed a tariff bill which differs in almost every respect from that passed by the lower house. The only two points the measures have in common are: (1) They both revoke the President's power to change tariff schedules; and, (2) they both include provisions for convoking an international economic conference.

ECONOMY

NUMEROUS efforts were made during the month to effect public economies. On March 17 the special Economy Committee of the House appointed a subcommittee to draft legislation reducing Federal salaries by 10 to 20 per cent.

On April 4 the President called for the appointment of a Board of Economy to map plans for reducing expenditures

by $200,000,000, this reduction to be supplementary to the cut in the budget previously made amounting to $369,000,000.

After joint conferences had been held between representatives of the Administration and the Congress, a tentative agreement was announced on April 9 calling for a reduction in expenditures of between $160,000,000 and $210,000,000 for the fiscal year 1933–1934.

Abolition of the Shipping Board was called for by the President, with coordination of all shipping agencies in a single bureau, as part of the Administration's economy program.

ABROAD

PRESIDENT HINDENBURG won the run-off election, on April 10, defeating Hitler 19,359,642 to 13,417,460. Hindenburg's gain over the preliminary balloting was 708,912 votes, while Hitler added 2,078,175 to his original total.

All-Moslem Conference in India, representing 70,000,000 Mohammedans, notified England it could no longer cooperate with Round Table Conference.

Fiscal year for Great Britain ended March 31, with the government showing the only treasury surplus to be found among the important countries of the world.

The tax bill whose announcement last August was a potent influence in driving England off the gold standard turned a prospective deficit 6 months ago of $350,000,000 into a surplus at the year-end of $1,382,000.

House of Representatives on April 4 passed the Hare bill to grant complete independence to the Philippines, effective eight years after inauguration of a constitutional government; the Senate is expected to modify the measure, at least by increasing the period to 15 years.

Representatives of England, France, Germany, and Italy met at London, April 6, for the purpose of considering relief measures for the Danubian countries. The conferences were, however, an utter failure, with Germany and Italy ranged against England and France.

Unrest caused disturbances in two South American republics on April 7. Martial law was requested in Chile, and the cabinet resigned after a run on the central bank; in Ecuador the two-ship navy mutinied and allies on land captured a fort.

Hugh Gibson opened the League of Nations disarmament conference on April 11 with a proposal for the abolition of weapons of peculiarly aggressive value, including tanks, heavy machine guns, and gases.

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Washington Looks at the State Banks

By GEORGE E. ANDERSON

How soon the Governor of the Federal Reserve Board will be able to furnish the Senate committee on banking with the promised plan for unification is somewhat uncertain. "Quickly, if you please" was Senator Glass' request. Meanwhile, there would be much interest in knowing the opinion of the Attorney General in which he advanced an opinion stating that he was unable to formulate any plan by which the proposed unification could be effected. Possibly, as Governor Meyer suggests, a way can be found if it is really wanted. But, is it wanted?

MR. MEYER

THE proposition sponsored by Governor Meyer of the Federal Reserve Board to establish a unified banking system under national supervision has served quietly to revive a banking issue which has existed in one form or another ever since the thirteen original colonies agreed to become one nation.

There is agreement as to the desirability of such a system between the Federal Reserve Board and the Comptroller of the Currency; and there is evidence that certain members of the Senate and House Committees on Banking and Currency entertain similar ideas. The only question outstanding between these three authorities is how such a system may be constitutionally created. For the time being a solution of that problem is in the keeping of the Governor of the Federal Reserve Board.

The latest development in the movement came to the surface in the testimony of Governor Meyer before the Senate Committee on Banking in connection with the statement he gave, under the authority of the Board, as to the latter's views of the amended Glass bill. The discussion at the time related to the provisions of the bill respecting branch banking. Governor Meyer was asked if the Board favored branch banking. He replied that the Board had not taken a vote upon the subject, that it was a large subject not strictly involved in the provisions of the bill relating to the Federal Reserve System, that the Board had not had sufficient time to consider that portion of the bill in detail and in any event it would probably be difficult to secure a unanimous vote upon the subject, and that the representations of the Board's position with respect to the bill which he was presenting were based upon unanimous votes.

SENATOR GLASS

Governor Meyer then referred to a paragraph in his letter transmitting the formal statement of the Board's position respecting the Glass bill as indicating a broader aspect of the whole subject of bank regulation in the country. In this letter of transmittal he said:

"It should be recognized that effective supervision of banking in this country has been seriously hampered by the competition between member and nonmember banks and that the establishment of a unified system of banking under national supervision is essential to fundamental banking reform."

Thereupon occurred the following colloquy:

Senator Glass. "Can you suggest to us a constitutional method of creating a unified banking system in this country?"

Mr. Meyer. "Well, I don't know how to do that but I believe that it can be done by taxation or some other method. I do not think there is any doubt about the ability to do it. The principal thing about being able to do something is to want to do it."

JOURNAL readers know Mr. Anderson well. He explains here an event in Washington of interest to every banker

Senator Glass. "We have wanted to do it."

Mr. Meyer. "Do you want to bring about unified banking?"

Senator Glass. "Why, undoubtedly, yes."

Mr. Meyer. "I shall be glad to help you."

Senator Glass. "I think the curse of the banking business in this country is the dual system."

Mr. Meyer. "Then the Board is entirely in sympathy with the Committee on the subject."

Senator Glass. "Then let us get your recommendations."

Mr. Meyer. "We will try to prepare one for you."

Senator Glass. "Let us get it quickly, then, if you please."

Mr. Meyer. "We saw no evidence that there was such a desire in the bill."

Senator Glass. "I do not suppose that I violate any confidence when I say that the Board went to the extent of trying to obtain and did obtain an opinion from the Attorney General of the United States and he could not suggest to us any method of doing it. . . . If you will simply suggest a constitutional way of doing the thing I will try to put it through." . . .

THE FIRST THING TO DO

MR. MEYER. "If you get a sound banking structure fundamentally you can discuss the details of the superstructure. I am more interested in the possibility of the Committee going into a plan for unified banking because it would simplify many of those questions which you are now discussing."

Senator Glass. "You have your experts."

Mr. Meyer. "I will see if we can do anything for you."

Later on in the hearing there was discussion of the credit control features of the Glass bill with special reference to the provisions to prevent the use of Federal Reserve credit for stock market speculation, such as occurred during the inflation and stock boom orgie of 1927-1929. There was the following conversation:

Senator Brookhart. "Do you think this bill would stop that kind of performance in the future?"

Mr. Meyer. "I think it would help to do so and make for better banking. I do, especially if you can find a way to bring about unified banking in the country."

Senator Glass. "You are going to do that for us."

In opposition to the theory of a unified banking system under national supervision is the resolution adopted by the State Bank Division of the American Bankers Association at Cleveland, Ohio, on September 29, 1930. This resolution is as follows:

> **"Whereas, the prevailing dual system of banking has contributed substantially to the remarkable economic development of our country, therefore, be it**
>
> **"Resolved, that we believe our present state and national banking systems should continue working in cooperation, thus assuring the endurance and permanency of individual initiative and the free play of personalized enterprise which history has proved so desirable."**

Also in opposition can be cited the opinions and activities of the banking departments of 48 states as well as the opposition taken by perhaps nine-tenths of the 13,000 banks in the country operating under state charters. This opposition is both legal and political.

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Mr. Meyer. "I do not know whether it can be done. The first thing is to find out if you want to do it."

Senator Glass. "I told you that we do."

Mr. Meyer. "I heard it today for the first time."

Senator Brookhart. "I am willing to do it on a cooperative principle."

The Senate Banking Committee, of course, is not the Senate of the United States and when the proposition for a unified banking system reaches the Senate it may not have the favor shown by the Committee. There is no question, however, that sentiment in favor of a unified system has been growing in Congress for the past two years. When the House Committee on Banking and Currency held its investigation of branch, chain, and group banking two years ago it was noticeable that, as the examination of witnesses progressed and the legislators went further into the subject, there was an increasing disposition to consider the possibility of a unified system. This sentiment in the House Committee, as appears also in the Senate Committee, grows out of the difficulty if not the impossibility of controlling credit conditions and establishing sound banking on a nationwide basis without crossing state lines and impinging upon state authority.

There are two avenues of approach to unified banking in the country. One is through the Federal Reserve, such as for instance the requirement that all banks in the country become members of the System. The other is through the national bank system—the requirement that all banks have Federal charters. Opposition to a unified system logically is arranged on the two lines of approach. Naturally the two lines of approach are favored by the two Federal authorities immediately concerned—the Federal Reserve Board and the Comptroller of the Currency, respectively.

The Federal Reserve Board is not necessarily in favor of a uniform system of charters nationally given for all banks although it is understood that the Board generally is in favor of such a system. It would be sufficient for the purpose of the Reserve if all banks were members of the System. It is for this reason perhaps that the Board has carefully refrained from suggesting a unified system and has confined its activities, where it has been active in the matter at all, to an extension of its own system. With about 900 state banks in its membership the Reserve Board naturally has been in no position to take sides between them and any other system.

THE COMPTROLLER'S POSITION

THE office of the Comptroller of the Currency, however, has been troubled by no such inhibitions. The growth of the system of banks chartered by the various states has been very largely at the expense of the national bank system. Immediately after the organization of the national bank system in 1863 the state banks, which previous to that time had possessed a monopoly of the commercial banking of the country, all but disappeared. Only 277 existed in the entire country in 1873. From the middle eighties onward the number of state banks increased in larger proportion than the national banks. The number of state and national banks was the same in 1893—3,807 each. Thereafter state banks increased in number very rapidly until by 1921 they constituted 71 per cent of all commercial banks in the United States.

Under the circumstances the Comptroller's office could probably do no less than call the attention of Congress to the weakening of the national bank system. In the annual report of the Comptroller for last year that officer said:

"A dis- (CONTINUED ON PAGE 718)

The Steps in Reorganizing Closed Banks

Successful Methods as Shown by Experience

By THOMAS B. PATON, JR.

FROM January 1, 1931, to March 1, 1932, or fourteen months, 259 closed banks throughout the country have re-opened under various plans of reorganization. In all cases the plans received the approval of the departmental authorities who presumably were satisfied that there was a definite need for the re-opening. No two plans are alike and it is difficult to find any one feature common to all.

There are so many factors which enter into the problem that it is impossible to set down any hard and fast rule or to recommend a plan which will guarantee satisfaction. Whatever the circumstances under which the bank is closed, the fact remains that the community is handicapped without banking facilities and it is for the stockholders, directors and banking authorities to decide upon what terms the bank may re-open and continue in business.

In most cases it appears that there is a demand for new funds to offset depreciation in the bank's assets. This demand may take the form of an assessment against the stock ranging from 50 per cent to full double liability. In at least one instance stockholders facing 100 per cent assessment surrendered their stock and put the amount of the assessment into a new bank for the purpose of purchasing assets of the old bank, and of assuming its liabilities. There are other cases where the stockholders have made a donation of the necessary funds, and there are still others where an increase of stock has been demanded. Usually where stock is surrendered and new stock issued, the old certificates are held as added protection in the event it is necessary to hold the stockholders individually liable. All of these methods of course are intended to strengthen the capital structure of the bank.

Another plan of keeping the assets and liabilities of the bank on an even keel is through the adoption of a reduction agreement under which the depositor agrees to waive a certain percentage of his claim varying from 10 to 85 per cent, the average being 50 per cent. This is then set up as a trust or revolving fund consisting of slow and undesirable assets. Usually there is no time limit at which liquidation of such a fund must be completed. Interest on the waived amount is offered in some cases and denied in others.

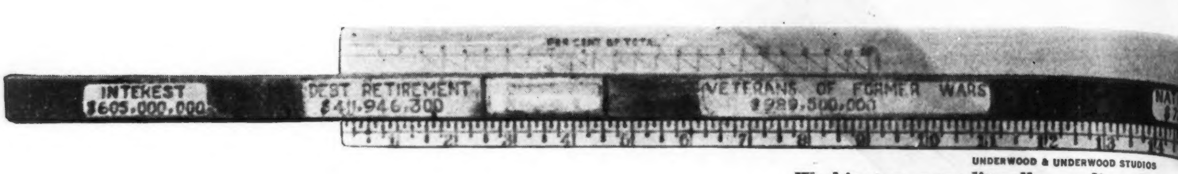
The operation of this trust fund is a matter which in some instances is taken care of by indenture agreements containing elaborate provisions as to the handling of the trust, method of reimbursing beneficiaries, power of exchange and substitution of securities, limitations on lending power and payment of expenses. The terms of the trust are simple or complicated according to the character and size of the assets involved.

It is encouraging to find in many communities sufficient interest and cooperation on the part of depositors, stockholders and the general public to meet these current emergencies.

The use of the so-called moratorium agreement on deposits is popular. Under this arrangement subscribers agree to postpone withdrawals of limited amounts over definite periods. These periods of time and amounts vary greatly. Some provide withdrawals at a rate of 10 per cent each month during the period of ten months, others allow 25 per cent during the first and second year and 50 per cent the third year, and still others extend over a period of five years. The average is three years. These moratorium periods are sometimes left entirely to the discretion of the board of directors.

In the North Dakota form summarized in this article, the bank has option to make a part payment and to extend the moratorium period to a time not exceeding one year. Careful study must be given to the length of period before a final decision is reached. In one bank depositors agreed to leave their deposits in the form of time certificates for three months after the re-opening of the bank with the privilege of withdrawal of not more than 10 per cent thereof in any one month. In criticizing this plan after one year's operation, the bank said: "The only change we would make if we were to re-open again under similar conditions would be to make waiver of withdrawals more in our favor. If a bank has the confidence of the community, it can get almost any kind of agreement with its depositors."

The matter of obtaining signatures to this agreement presents the serious problem of delay. In some instances it has taken as long as three months to obtain the desired number. This situation indicates the necessity of a state law making an agreement binding upon all depositors where a certain percentage have signed. In a few states proper legislation has been passed. For example, in Minnesota, North Dakota and South Dakota the agreement is binding if signed by depositors representing 80 per cent of the claims. Some agreements contain a clause that it is void unless (CONTINUED ON PAGE 714)



UNDERWOOD & UNDERWOOD STUDIOS

Washington now literally applies the yardstick to budget control. This slide rule, designed by Commissioner of Customs F. X. A. Eble and presented recently by President Hoover to Cabinet members, shows Federal income and expenditure items in colors. Exactly half is now in red, indicating the deficit. The sliding scale shows the percentage of any item as compared with the entire income or outgo.

The Tax Bill Fight to Balance the Budget

By MORRIS EDWARDS

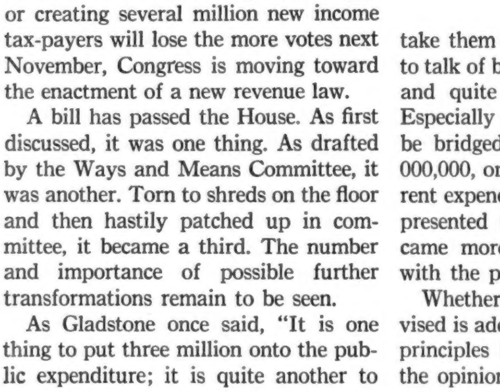
The country must pay its way; a definite relationship between taxes and expenditures is essential

ACKNOWLEDGING in one moment the plain duty of balancing the budget, but forced in the next to decide whether cutting Federal pay or creating several million new income tax-payers will lose the more votes next November, Congress is moving toward the enactment of a new revenue law.

A bill has passed the House. As first discussed, it was one thing. As drafted by the Ways and Means Committee, it was another. Torn to shreds on the floor and then hastily patched up in committee, it became a third. The number and importance of possible further transformations remain to be seen.

As Gladstone once said, "It is one thing to put three million onto the public expenditure; it is quite another to take them off." So also is it one thing to talk of balancing the national budget, and quite another actually to do it. Especially is that true when the gap to be bridged is a minimum of $1,241,000,000, or 34 per cent of the total current expenditure. That was the problem presented to Congress, one which became more acute rather than less so with the passage of the months.

Whether the solution tentatively devised is adequate and based upon sound principles is a matter of opinion, and the opinion depends upon the point of view. The proposed legislation takes on one guise if it is lifted from its surroundings and analyzed in the cold light of logic. It shapes up quite differently if it is weighed with appropriate allowance for the atmosphere in which it was produced, the conflicting forces which diverted its course at every turn, and the compromises which inevitably creep into human deliberations. Conceiving a model revenue law is not the same as passing it. The circumstances have to be considered.



NEW YORK HERALD TRIBUNE

Balancing the Budget

In approaching the job, Congress received scant help. There was not even unanimity over the country on the major question at issue. While the demand to balance the budget at all costs came from some quarters, the easy counsel of continued drifting came from others. While many people accepted the situation as an accomplished fact and one to be dealt with on that basis, others persisted in profitless second-guessing about how the situation might have been avoided and in scolding Congress for not having taken the bull by the horns a year earlier. Even where there was acceptance of the general proposition of balancing the budget, no detail incident to gaining that result was too small to be roundly pilloried, magnified into a mountain and made the basis of actual or threatened political reprisal of unsurpassed intensity.

That is neither new nor unusual. As ordinary citizens, we want the Government's credit preserved, but not by singling us out to pay a tax contributing to that result. Any tax is bad. The one that pinches us is by all odds the worst of the lot. Any Congressman who thinks otherwise is labeled as incompetent or worse.

As blocs which benefit from openhanded public spending—ex-soldiers, farmers, national defense enthusiasts, union laborers, residents of cities which would like new postoffices or a deeper harbor channel—we cheer lustily for balancing the budget through economies. But the economy must be effected without jeopardizing a bonus for us ex-soldiers, an artificial price-fixing scheme for us farmers, pegged wages on public construction projects for us union workmen, a 9-foot channel for our river, and an abundance of employ-

ment for our navy yard. And in November, we will punish the Congressman who touches such untouchables.

As Federal employes—whether bureau chiefs or file clerks—we favor the principle of the Government living within its income, but not by cutting appropriations for our department. And if such a cut should be proposed, we not only "prove" that even a 5 per cent retrenchment would compel our bureau to abandon the only one of its ten functions which enjoys any public favor, but we also tell every person who deals with our department that the one expense which would be thus curtailed is the one which serves him or pays for the supplies he sells. We can rely upon him to bludgeon Congress in our behalf.

To the member of Congress, whose desire for re-election comes in for much unjust lampooning, the situation itself, the differing views concerning what should be done, and the varied pressures attendant upon every specific proposal for doing it offered a dilemma. He had to steer a course between the Scylla of losing votes with new taxes on the one hand, and the Charybdis of failing to balance the budget on the other.

Much has been said and more will be said concerning the law soon to be passed, the burdens it imposes on the country, the business dislocation it causes, the tactics by which one tax may have been shelved and a worse one logrolled through as a substitute. But valid though such criticisms may be, they cannot be more than secondary to the main proposition, balancing the budget.

The significant thing is that, despite storms of immediate abuse and probable political setbacks later, Congress did not turn its back on the whole unpalatable job. It decided to buttress the national credit and place current finances in a sound and balanced condition. In these times, such a decision by a democratic legislative body—to appeal to reason and not to the momentary selfish emotions—stands out above the shortcomings of the particular measures by which the decision is enforced.

So, despite the impediments, Congress tackled its job. The objective was clear enough. It would be possible to

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Mr. Edwards gives here a vivid account of taxation and Government economy problems, and of the Congressional political issues involved. He is a frequent JOURNAL contributor, lives in Washington, and is in the finance department of the U. S. Chamber of Commerce

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defer principal payments on the national debt on the theory that a respite of a year or two in the retirement program would do no irreparable harm. Appropriations for the Reconstruction Finance Corporation and the Federal Land Banks could be treated as capital items outside the budget on the theory that they ultimately would be self-liquidating. The agitation for further bonus payments to war veterans could be left as a bridge to be crossed when it was reached, on the theory that when the country actually realized the state of the finances, the pressure for such an enormous expenditure would diminish. Even with these items out of the way, the job was one of closing a gap of $1,241,000,000 between probable receipts and budgeted expenditures for the 1933 fiscal year. A feasible combination of increased taxes, new taxes and further economies had to be worked out in proper legislative form.

Before the gap appeared likely to be so large, the Treasury had submitted a program of increases in existing taxes and new excise taxes. When later estimates disclosed a more serious situation, the remedial measures had to be expanded. Not because anyone wanted it but because it seemed the only practical recourse, the manufacturers' sales tax—pooh-poohed on all sides in December—had to be brought forward in February for the purpose of producing $595,000,000, or nearly one-half the prospective deficit. The rest was to come from sharp increases of existing levies, plugging of leaks in administration, a few special taxes, and modest reduction of expenditures.

That was the signal for fury. To almost every commentator, it was a bad and vicious bill. Tax bills usually are. It confirmed everyone's worst fears. Tax bills always do. Everyone had a bone to pick with some provision or other, more often than not with considerable justification. Yes, the budget must be balanced, but——.

As the uproar grew, veteran members of Congress spoke privately of not having received such copious and stinging expressions from the "folks back home" since the days in 1917 when the war vote loomed. (CONTINUED ON PAGE 726)

ASSOCIATED PRESS PHOTO

A bright moment when Secretary Mills met Senator Smoot, chairman of the Senate Finance Committee. At the hearing Secretary Mills declared definitely for a permanent Federal inheritance or estate tax

Employment Stabilization Trusts

By GILBERT T. STEPHENSON

> If the weaknesses of employment stabilization plans in the past have been lack of reserves, use of funds for other purposes, and failure to segregate funds, then three steps in the right direction will be (1) to set up and maintain reserves, (2) to hold these funds inviolably for unemployment benefits and (3) to segregate these funds from all others. In order to accomplish these three improvements it seems advisable, theoretically at least, to introduce the element of trusteeship. And so it has proved in actual practice.

OUR industrial leaders, economists, and statesmen are trying earnestly to devise plans for the stabilization of employment so that, in the event of another depression, we shall never again have so much or so prolonged or so widespread unemployment.

The plans so far devised may be grouped under seven heads—namely, compulsory national unemployment insurance, voluntary national unemployment insurance, joint-agreement plans between companies and employees, trade-union plans, individual private-company plans, cooperative private-company plans, and state-regulated plans.

Eighteen foreign countries, including Great Britain, France and Italy, have unemployment insurance. Great Britain was the first country to adopt it. That was in 1911. Social services, chiefly unemployment insurance, have cost the British Treasury as much as $1,000,000,000, in a year. In nine of the countries unemployment insurance is compulsory and in nine, voluntary. There are in all about 49,000,000 wage-earners covered by insurance. There are 16 joint-agreement plans covering about 65,000 wage-earners, all of which plans have come into existence during the past 10 years. Under these plans the companies and their employees contribute to a common fund that may be drawn on in time of depression to supplement wages.

Trust institutions, says Mr. Stephenson in this and later articles, can be useful to industry in these six ways and others:

1. Stabilization of Employment.
2. Relief of Incapacitated.
3. Reward of Merit.
4. Provision for Retirement.
5. Encouragement of Thrift.
6. Inducements to Profit-Sharing by Employees.

There are 48 trade-union plans covering 45,000 wage-earners. Some of them go back as far as 1895. Under these plans the members of the respective unions contribute to an unemployment benefit fund.

There are 13 individual private-company plans and each company establishes a fund for the benefit of its employees. There are two cooperative private-company plans. One of them, known as the Fond du Lac plan of Fond du Lac, Wisconsin, established in 1930, embraces three companies besides two subsidiaries. The other is the Rochester plan of 1931 embracing 19 companies.

The most recently suggested American plan is that of the Interstate Commission on Unemployment Insurance resulting from a meeting last summer of the governors of Massachusetts, Rhode Island, Pennsylvania, Ohio, New Jersey, Connecticut, and New York. The substance of this plan includes the compulsory establishment of statewide systems of unemployment reserves; the payment by each employer of a contribution amounting to 2 per cent of its payroll; the maximum benefit of 50 per cent of an employee's wage or $10 a week for not more than 10 weeks a year; the reduction of the contribution from 2 per cent to 1 per cent of its payroll when the reserve shall exceed $50 per employee and then a cessation of contribution when it shall exceed $75; and the custody, investment, and disbursement of the funds by the state.

Up to this point progress toward satisfactory employment stabilization has been by the method of "trial and error." Of unemployment insurance it is said, "The early history of almost every branch of insurance has been marred by miscalculation, exhaustion of reserves, forced retrenchment, failure of private companies and occasional scandals. In this respect, unemployment insurance differs little from other forms of insurance. . . . The great majority of the trade-union plans of Europe and America were accustomed to pay benefits directly from their current income, with or without an unemployment assessment which was pooled with the revenues from other sources. The accumulated moneys were often expended for strike benefits or other emergencies than unemployment and periods of depression found the schemes entirely without reserves. Many plans established and entirely financed by employers have included no provision for the regular setting aside of funds to meet the costs and even when accumulation of reserves has been attempted, the moneys often have not been segregated from the assets of the business." (Bryce M. Stewart, Some Phases of European Unemployment Insurance Experience, Academy of Political Science, November 11, 1931.)

If the weaknesses of employment stabilization plans in the past have been lack of (CONTINUED ON PAGE 724)

The Banker and the Motor Car Dealer

Views of an Automobile Authority on One Phase of the Industry

By ALFRED REEVES (An Interview)

WITH passenger car and truck production for the first two months geared to demand and showing declines of 41 per cent from last year's figures for the same period, the automobile manufacturers are not halting in their plans for recovery. If, as and when improvement sets in for the motor car industry, general business recovery will surely follow. And in this picture the makers look to the help of local bankers.

In line with the policies of improvement going on in the industry, the 1932 picture of motor car dealer organizations throughout the country will show fewer and better dealers, as a large number of the poorly financed or poorly managed dealerships are being eliminated from the picture and in their places are appearing stronger organizations with a better basis of competition. This is eliminating the apparent necessity too, on the part of some of the best retailers, of offering ruinous prices for used cars to offset the offerings of less intelligent dealers with little knowledge of used car values or who were over-anxious to sell new models.

Other factors, too, are improving the manufacturer and dealer relationships. The makers for example are following more lenient methods in developing quotas, in arranging territories, and in other ways to put their dealers in better position for making money. Contracts are being changed to strengthen the position of the retailers and to make more efficient the selling methods of their local organizations.

Some of the companies have developed accounting systems and, in addition to merchandising helps through their factory representatives, are sending men to assist in the installation of better records that are improving the credit status of the dealers in their relations with local bankers. The production of cars is now geared to dealer requirements and the manufacturers are watching the trends of retail sales to make certain that their retailers are not overstocked and that they will not be

required to sacrifice goods or to cut prices. The records for last year showed that while the dealers sold a substantially smaller number of cars, their profits showed an improvement over the preceding year.

These local dealers are merchants, and like every other merchant they will profit better with the counsel and guidance of their local banker, and with proper local credit arrangements. From the viewpoint of the automobile manufacturer, these men are selling standard products with comparatively stable values at least during the normal selling season, and they warrant reasonable credit if their business statement and character meet banking requirements. And with the improvements being made and the better accounting methods urged by the manufacturers, it would seem that opportunities exist for bankers to develop among these men new commercial accounts or more profitable accounts than they now have.

The banker is in much the better position than other financial agencies, to extend credit to the dealer either on his statement or his stock because, in addition to the asset problem, he is better qualified through personal knowledge and contact to value properly the personal and moral hazards involved. Many a good retailer who, on a mere statement of his financial condition, would not have been entitled to half as much credit as he finally received, has been helped by his banker in building up a profitable business—profitable to himself and to the banker. Financial help is necessary on commitments ahead of season, for time payments, for display of the proper number of models on the floor which is an essential to sales, and for a line of credit for the legitimate conduct of his business.

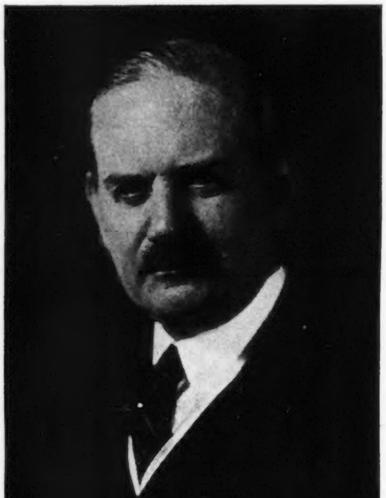
QUALITY UP, PRICES DOWN

WITH competition now more orderly because of the better trained dealers in the business and also because the majority of makers are now bringing out their new models at the end of the year, the credits on motor cars should be on a better basis.

One of the advantages, and somewhat of a problem, of the industry today is the quality of cars being produced. Present models are the greatest values in history. Mass production, too, has resulted in constantly decreasing prices, so that now a very small increase in demand would bring a substantial increase in profits to both the manufacturers and the dealers. As an example, one standard make with 112-inch wheel base sells at $725 and is a larger automobile than the first model to which the maker attached his name in 1924 when it sold at $1,500 and was of the same wheel base, the only difference being that the earlier model was a six-cylinder instead of the present four, although the latter has additional improvements and values.

The average American formerly changed models or makes when the paint went bad, when the radiator became rusty, when the car rattled or when the repairs were heavy. Today we have lacquer paint, we have chromium plating, we have rubber protected joints that prevent rattling of any kind—and we have cars that run many thousands of miles with few repairs because they are designed better, because roads are better, and because balloon tires and shock absorbers ease the effects of rough driving on the car in all its parts. And too, the public is more critical and insists upon better car values.

But the banker can go even further in his relations with the good local retailer. Few dealers can get along without their banker's advice because of his broader viewpoints on business in general and on the trade status in the territory, and an opportunity lies in joint consultations between banker, dealer, and factory representative on the occasion of the latter's monthly visits. These representatives are the manufacturer's contact men. They bring merchandising and sales and advertising helps to the dealer, they install systems for the improvement of his business, they note his progress and they are there to help in solving his problems. The banker's contact with them will bring him into closer touch with the manufacturer and will benefit his local relationship with the distributor. Round-table discussions will enable him to know definitely whether or not his dealer customer is taking full advantage of the opportunities provided by the manufacturer.



Alfred Reeves, Vice-President, National Automobile Chamber of Commerce

THE DEALER'S BALANCE-WHEEL

THE banker's outside interest and criticism of the dealer's business as a business and not merely as an automobile dealership is another important factor. These men are selling cars, they are teaching their salesmen to sell cars, and they are constantly thinking in terms of cars. Their enthusiasm may lead them beyond their normal and wise course, their disappointment or discouragement at times may seriously hamper their potential progress. They need their banker as a balance-wheel to help them keep their feet on the ground at all times. Many a dealer's business can be improved materially, or even can be saved, in just this way.

The banker who is intent upon helping his dealer customers recognizes these facts. And when called upon to advise upon new dealerships or the change from one make of car to another by the retailer, his knowledge of the standards of the community in relation to purchasing power, the price and re-sale factors in motor cars, and a general familiarity with the standard makes and the improvements in manufacture will add materially in preliminary discussions. These in addition of course to other factors regarding the manufacturers themselves which his experience as a banker perhaps places first for consideration.

The motor car industry in 1931 had a production of 2,472,359 cars, which was 29 per cent below the 1930 production and 56 per cent below 1929 production. But with the continued decline last year in the total number of cars registered, the gasoline consumption increased, showing a greater mileage for the cars and bringing naturally a larger repair business. With improvements in manufacture, cars driven 40,000 miles are probably better values today than those that had been driven 25,000 miles in the past. There will always be a demand for used cars, and probably at better prices, but the reduced pro- (CONTINUED ON PAGE 728)

Directorships and the Shaping of Business Policies

How Bankers Are Represented on Corporation Boards

By W. S. COUSINS

THE senior executives of one of the large banks in the New York downtown district contact directly or indirectly, through directorships and other affiliations, more than 500 industrial and commercial enterprises, according to a recent conservative estimate. And the directors of the same bank, drawn largely from the managing executives of representative American industrial corporations, maintain direct contact with at least 5,000 separate concerns which employ thousands of workmen and produce for the domestic and foreign markets billions of dollars' worth of commodities annually.

As an example of the daily routine, one bright morning near the end of March the chairman of the board of this bank was in attendance at a meeting of the directors of a manufacturing corporation in Pittsburgh; the president had a similar meeting on his calendar, a block distant from the banking house; and the senior vice-president was attending a conference with the directing heads of a utility in Chicago.

Not only in New York and other monetary and industrial centers, but in the smaller towns as well, the influence and guidance of American bankers are devoted to the shaping of policies of organized industry and business. The facts here should go far to refute the criticisms of those who claim that the bankers' interest goes no farther than the door-steps of their own institutions.

Successful banking demands intimate contacts which only the personal affiliation of bank executives with industrial enterprises can provide. Hence in recent years the country has witnessed a general broadening of the outside activities of bankers, and their widening attachment through directorships in steel, automobile and other manufacturing corporations as well as in utility, railroad and shipping enterprises.

In these positions of responsibility bankers are giving attention to problems of finance, leaving to technicians the tasks of framing policies for plant operations. Because of these contacts with the activities of industrial concerns, bankers are in position to cooperate in the solution of credit and financing problems.

A survey of the directorships in banking and commercial-industrial enterprises held by the two senior executives of the twelve largest banks in New York City, 24 bankers, revealed the following information:

Directorships in their own institutions, in affiliated companies, and in non-profit-making enterprises	141
Directorships in industrial and commercial organizations	297
Total Directorships held	438

In other words, these 24 bankers, with surprisingly little duplication, hold nearly 300 directorships in well known industrial and commercial corporations, in addition to the 141 directorships representing the parent and affiliated companies by which they are directly employed.

Heading the list is an aggregate of 64 directorships held by the two senior executives of the nation's largest trust company, only ten of these posts being allied directly with their own and the affiliated banking institutions. Vice-presidents of this institution are serving too as directors of widely scattered industrial and commercial concerns, and as key officials of chambers of commerce, merchants' associations, bankers' organizations, etc.

Another specific example in New York is that of a prominent banker who holds the record for the largest number of active outside posts in industry. The Directory of Directors credits him with 47 directorships, of which 14 are more or less intimately connected with banking. This leaves an aggregate of 33 posts in non-banking activities and makes him partly responsible for the successful operation of three metropolitan traction companies, three insurance companies, a paper manufacturer, a large New England Railroad, a telegraph company, and one of the largest and best known electrical manufacturers.

The directorships held by another well-known banker read like the roll-call of big industry, including the American Telegraph and Telephone Company, Consolidated Gas Corporation, General Electric, General Motors, New York Central, United States Steel, Pullman Company and the Mutual Life Insurance (CONTINUED ON PAGE 720)

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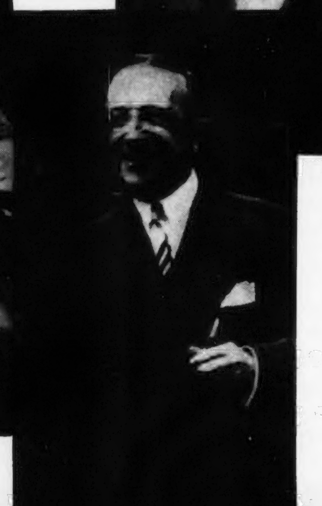
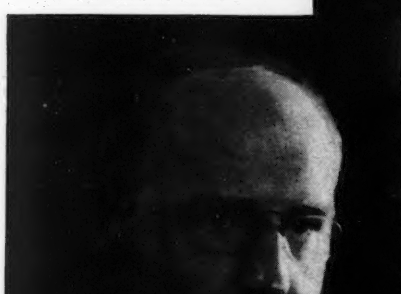
Mr. Cousins is a well known New York financial writer. He reports here an interesting survey of the directorships in other corporations held by the senior executives of banks in New York and other cities throughout the country.

The Month



German Bruening, British Macdonald, French Tardieu and Italian Mussolini: As Europe prepares this Spring to offer the United States a choice between paying for the war or paying for the war, these four men will try to agree on a common plan



Silas Strawn, President of the Chamber of Commerce of the United States, who will guide the proceedings of the 20th annual meeting of the Chamber at San Francisco, May 17 to 20

A group of Americans who talked for 40 minutes, then voted 306 to 47 in favor of retreating from the Philippines, America's Asiatic empire of 114,000 square miles, at a moment in history generally regarded as the beginning of a great era of development in the Pacific

EDITORIALS

Logic, Tragic

THE embarrassment of Congress in trying to balance the budget goes back to an accident of history in the last half of the 17th century, one hundred years before the United States became a nation. It was then that the House of Commons in England won the right to control the nation's finances, and things have never been the same since.

When the founders of the Republic wrote into the Constitution that all bills for raising revenue must originate in the House of Representatives, and that no money should be drawn from the Treasury without authority of Congress, they were following the practice of the British Parliament. The logic was flawless. Who, for instance, would be likely to cherish and guard the people's money more zealously than the people's own representatives, and who had more right to spend it? Thus Congress, along with the pleasure of spending, shouldered the task of levying taxes.

There were those, of course, in 1787, who insisted that America was not England—that an elected President did not need the same curbs as an hereditary king—but logic won. The privilege of collecting and spending the revenues of the Federal Government was given to a group of men who did not represent the nation as a whole, but certain small geographical pieces of it. A statement of this fact implies no adverse criticism of Congress. Individually Senators and Representatives are men of intelligence and patriotism, but it is true, nevertheless, that if any one of them persistently puts the welfare of the nation above the special interests of his constituency, he invites the opposition of someone in his state or district who possesses a more provincial view of the situation.

Royal Spendthrifts

THERE is a direct connection between our present fiscal problems and the extravagances of Henry VIII, Elizabeth, the Stuarts and Cromwell which resulted gradually over several decades in giving control of British revenues and expenditures to the House of Commons.

One of the first achievements of the people's own representatives was the creation of a National Debt, which was not paid off, but grew like a weed. Prior to the time of William and Mary, at the end of the 17th century, there was no such thing as a National Debt, in the modern sense. It started in a small way and by 1700 amounted to about $34,000,000. Even that small total frightened the economists of the time and led to many predictions of ultimate calamity unless some way could be found to prevent Parliament from piling up debts for future generations to worry about. The idea was regarded as clever but fantastic.

Time Payments

MOST of the writers of the time appeared to feel that the idea was so obviously unsound and dangerous that it could not endure. They saw the nation embarking on a sort of wholesale installment buying whereby the present costs of wars and public improvements could be charged against children, grandchildren and great-grandchildren.

John Holland, one of the organizers of the Bank of Scotland and a leader in establishing the Bank of England in 1694, wrote as follows:

"Any Man that will consider and compute things will see that in a short time there can be no way to Raise Money for the Government, than by stopping the Payment of the Exchequer upon several Funds, which, with the Land and Malt Tax, will raise the necessary Sums for Every Year's Expence; tho' indeed with this Inconveniency and Loss, that since the Publick Faith will then be Broke, the Government can have no Credit, and must deal with the People at a Dear Price. This indeed is very Dreadful to think on and will put many thousands of Families under the Greatest Consternation and Distress; but it is unavoidable if there be not speedily some way found out and fallen upon, to lessen the Nation's Debt."

For three-quarters of a century the economic significance of a permanent National Debt was fought over in Parliament and out. Finally, in 1786, William Pitt succeeded in establishing a sinking fund somewhat along the lines previously attempted by Sir Robert Walpole; but by that time the debt had increased to well over $1,000,000,000.

Instead of diminishing the debt, a sinking fund merely lulled Parliament into the belief that the burden could be expanded indefinitely, as long as there was a way to pay it off. And so the debt grew, because there was no centralized responsibility for reducing it. In 1816, Richard Preston, a conscientious member of Parliament, hurled a volley of old-fashioned English against his contemporaries for their complacency in piling up mountainous debts for future generations to struggle with.

"What a reflection," he wrote, "on statesmen who do not guard against this evil; seeing that by a lavish and unnecessary expenditure at the commencement of the century they may entail upon the country ruin in its finances and in its revenues at the end of that period." (CONTINUED ON PAGE 732)

The Machinery for Measuring Results

Management Control Is the Balance-Wheel in Banking

By H. N. STRONCK

A DECIDED change is taking place in the trend of thought on bank management. Up to 1930 the greater part of the stress had been laid on income and operating expense problems. But of what avail is a large operating profit margin if this margin is seriously impaired through depreciation of assets, or even worse if this depreciation of assets becomes so great as to necessitate suspension?

Then it was realized that if our present banking system is to survive, stress must be laid on the importance of sound financial management of banks. The "accidental" profits of the past resulting from an almost automatic growth in deposits and a rapid turn-over of loan lines are now eliminated. Our bank profits and strength of financial position will become more and more the result not of accident, but of sheer application of management of the highest order.

The process involved implies a higher degree of banking leadership and the proper control mechanism. But how?

THE formulation and adoption of sound bank management policies, principles and practices and the successful administration of these require types of bank executives found far too infrequently in American banking today. The real leader, in addition to certain inherent characteristics, possesses the imagination to define his objective or goal and to formulate plans for the attainment of that objective.

He mobilizes and coordinates the facilities necessary to carry out the plan, including personnel, equipment, capital, etc. He instills teamwork or esprit de corps into the personnel for enthusiastic and harmonious work toward the common goal. He sets up a management to insure that the plans are carried out. *And he must establish the controls to measure definitely the progress made and the results produced.*

In this process a number of different kinds of leadership come into play. The administrative leader determines policies; the planning leader develops plans and procedures for carrying out policies; the organizing leader initiates group activities; the executive leader secures results; the control leader is the "balance-wheel" over all.

The distinction between the administrative function of policy determination and the managerial function of policy application is commonly not clearly understood and carried out. The necessity for the possibility of the application of scientific method in both these closely interrelated problems is only dimly perceived by some executives.

Coordination involves the process whereby policies are adopted, interpreted, executed and supervised. Coordination is probably the major task of the chief executive of any going business.

Organization is something different in its essence from the sum total of the labors of its individual members. Proper organization is in a position to yield far greater results and far greater happiness to those engaged in creating results than is that organization which is merely conceived of as an aggregation of isolated individuals. Faulty organization plans seriously handicap coordination and hence thwart the best in personality. Functions are indefinite and unbalanced; the personnel is too often a result of chance, favoritism, family or business influence, rather than experience, training, personality. Stubborn prejudices often balk coordination.

The chief executive, in developing and carrying out these processes, may get all the help and advice he wishes, but in the final analysis the responsibility for a decision rests with him. The chief executive does not judge from the outside. He must weld together the functions of critic, judge and active participator. If we say that he passes *on* a situation, we must remember that he is *in* the situation. A leader need not always have the largest share in decision making, and yet he may not thereby be any less the leader. Decisions in the better organized institutions tend to be determined largely by the individuals with the special knowledge required for the special problem. It is by organizing all available knowledge and experience that we transform experience into pow-

er. Here is where real leadership takes its place.

Viewed from another angle, the process must be developed along lines which will support the three sides of the "Triangle of Management." These are:

1. Sound policies.
2. An organization which is capable of carrying out these policies.
3. A control which insures that these policies are adhered to and which measures the results produced.

In developing the process and mechanisms, it is of vital importance that a scientific method of attack be applied—an engineering method. This method, which evaluates present conditions and predicts the future trend, is to

1. Analyze the factors that control the condition.
2. Determine the relative effect of each factor.
3. Plot the controlling factors against time.

A study of such a plot, or set of plots, gives an accurate picture of the present position and future trend. From such studies, we synthesize the situation anew and feel confidence in the accuracy of the prediction.

Policy determination may be best and most tangibly expressed in the form of budgets. A budget, properly handled, furnishes a means of combining instructions and inspiration of creative ability which is unique.

Since there are two phases of bank management and since there is no relationship between the two, a budget for each is in order. Hence, we deal with a *financial budget* and an *operative budget*.

Executive bank officers must be self-starters, and I often wonder whether or not the committee form of management is the chief factor for so few of these self-starters in many institutions. Sometimes committee discussion and approval restrict them so that they are no more executives than the office boys. "A committee is only a committee". It cannot operate. But the work of a bank must be organized for quick and summary decisions.—*The Author.*

The object of the financial budget is to carefully pre-determine the financial policies of the bank. This budget is termed a *financial program* and its prime object is to develop and maintain a sound financial position and a balanced return of income from earning assets. Such a financial program states specifically just how the various classes of deposit funds and the invested capital funds are to be converted into assets. It states specifically into what classes of assets each fund group is to be converted and circumscribes the underlying conditions for each class of such assets. In order to develop a sound plan of conversion of funds, one must be thoroughly familiar with all the controlling factors involved. One of the chief causes for weak banks is that they do not have definite and sound financial plans.

THE FINANCIAL PROGRAM

THE technology of the development of financial programs is relatively new in the banking field. Because of the vital importance of such plans in the management of banks, it is hoped that this technology will shortly become an integral part of our bank management process. Such plans are even more important in branch bank systems than in unit banks. In connection with the general net profit budget, the only method whereby income from interest and discount can be accurately forecast is through a financial program.

The operative budget is for the purpose of accurately forecasting the sources of income and the volume from each source, and to set expense allowances for transacting the type of business which produces the income. To set definitely the policies of operative management, one must be thoroughly familiar with all of the factors which influence income and expenses. One must be thoroughly familiar with the "laws of comparative costs." A knowledge of these laws gives one a thorough insight into the type of business which should be developed for increasing the operating profit margin.

It must be strongly borne in mind that, given the same volume of gross income and the same personnel efficiency, the major influencing factor of operating profit margin is the nature of the business developed in the bank. Because of the great variation in this factor, we find such great variations in the operating profit ratio of banks. The ideal policy plan will, therefore, carefully prescribe the type of business to be

MR. STRONCK

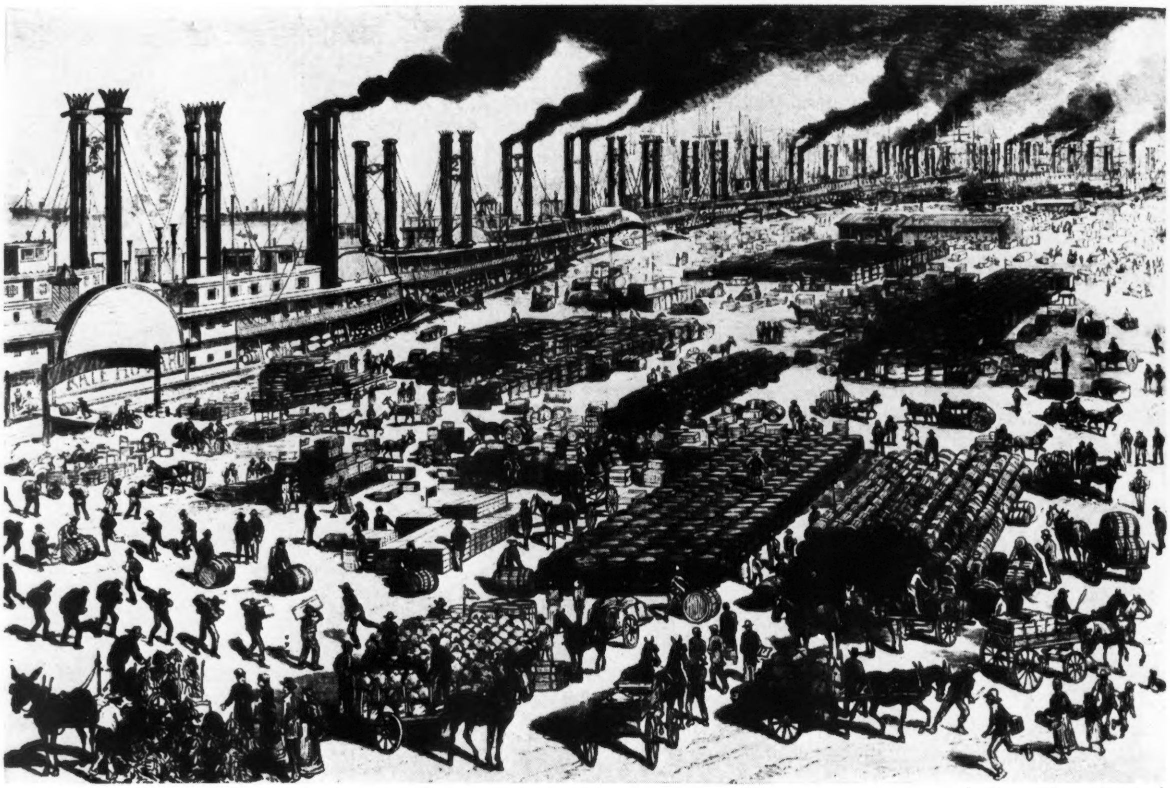
developed and will serve as the foundation for business development plans.

Now, having carefully determined all factors involved and having circumscribed the objective to be attained by financial management and operative management, the second step consists of mobilizing all of the knowledge, experience and facilities so that this plan may become operative. In a bank the most important problem involved is that of mobilizing the personnel.

Technically such a plan takes the form of an organization chart. Such a plan first of all subdivides the work in such a manner as to comply with all of the sound principles of work subdivision. It then coordinates the subdivision of work, for coordination is the control of division. It then indicates definite lines of authority and supervision.

Up to that point, the plan has nothing to do with the personal characteristics of individuals; it is not built around individuals, but around the nature and volume of the business to be transacted. The fallacy of many present organization plans is that they are built around individuals. With an ideal plan before him, it becomes the responsibility of the chief executive to select from members of the present organization or from other sources such individuals as conform reasonably to the requirements of the plan, and then develop them until they ideally fit the ideal plan.

Having now determined specifically the policies under which the institution is to operate in order to attain a certain objective, and having properly mobilized all the facilities required and through real executive leadership having enlisted all the personnel in the common (CONTINUED ON PAGE 713)



(FROM A SKETCH BY JOSEPH HORTON)

New Orleans in 1881—A scene on the levee

BANKS AND CITIES

New Orleans

By HERBERT MANCHESTER

IF college professors ever teach banking by the case method as they now teach law, they will certainly draw examples from the early banks of New Orleans. For there the early ideas of the purposes of banks and of the bases of banking and circulation, whether right or wrong, were carried to logical extremes and put to the test of extensive operation. The result was that the banks became the greatest promoters of the city and state.

The first banks of Louisiana came as an outgrowth of its cession to the United States. Since the paper currency that had been issued by the French and Spanish governments had greatly depreciated, Governor Claiburne in 1804, soon after he took office, urged the founding of a bank to provide better currency and to aid industry. The outcome was the establishment of two banks in the city—the Louisiana Bank, which was under the presidency of Julien Poydras and controlled by the Creole planters and exporters; and a branch of the first United States Bank, managed by Benjamin Morgan and other Americans for the furtherance of commerce. Both issued currency, and kept it at par, and both were great factors in the growth of the territory.

When the first United States Bank lost its charter in 1811, two banks were set up to take the place of the branch there. Of these, the Bank of New Orleans had a possible capital of $5,000,000; the other, the Louisiana Planters' Bank, was founded by Col. Bellechasse, A. D. Duplanter and others, definitely to discount the notes of the sugar growers.

All this, it should be noted, was before the first steamboat came down the river from Pittsburgh at the end of 1811. Five years later and after the War of 1812, when steamboats began to breast their way up the river they seemed to be establishing New Orleans as the inevitable port of the whole Mississippi Valley, and to be opening up vistas of commerce that disclosed no limits. Everything seemed to justify Jefferson's prediction, "New Orleans alone will be forever, as it is now, the mighty mart of the merchandise brought down from more than a thousand rivers. . . . This rapidly increasing city will, in no very distant time, leave the emporia of the Eastern world far behind."

These splendid prospects led the state to subscribe for part of the stock of two banks, both designed to promote the prosperity of the state. One was the Louisiana State Bank (1818) with Chief Justice F. X. Martin and the mayor, I. Roffignac, among the directors, and the other the Bank of Louisiana (1824) with Benjamin Story as president. Both sold their stock, which was guaranteed by the state, in Europe where specie was more plentiful and could be obtained more easily than in America.

(GALLOWAY)

New Orleans today—the banking section contrasted with the old French quarter

The conception of a bank as designed to further internal improvements became popular, and gave rise in 1827 to the Consolidated Association of Planters of Louisiana, with a capital of $2,000,000. This was a land bank, but highly developed. The planters subscribed for the stock with mortgages on their real estate, the bank issued bonds secured by the mortgages, and the people paid currency for the bonds. The state took part of the stock the next year, which helped the sale of the bonds in Europe. The money was loaned to the planters to improve their plantations, and went far to create a boom throughout the state.

In the same spirit, the state in 1829 chartered the New Orleans Gas Light Company as a bank to supply gas to New Orleans and several other cities. The corporation at first did not succeed, but after being enlarged in 1835 under James H. Caldwell, fulfilled its purpose and is still in existence as a Gas Company.

Then in 1831 the New Orleans Canal and Banking Company was chartered to build a canal for shipping in the American quarter. This was accomplished under the leadership of George B. Ogden, the president, and though the canal was later taken over by the city, the corporation still exists as the Canal Bank.

Another of those early banks was the Union, founded a century ago, which originally received subscriptions in mortgages on land and slaves, issued bonds secured by the mortgages and guaranteed by the state, and sold the bonds in Europe to get specie. In the same way the Citizens' Bank, founded in 1833, obtained $5,000,000 in paid-up capital by the sale in Europe of bonds secured by mortgages on property and guaranteed by the state. Both of these carried out various improvements in the city and existed for many decades.

Since New Orleans was in need of a water supply, it seemed natural to organize a bank to furnish it. So the Commercial Bank was established in 1833, and still continues as the water company.

Thus we find bank after bank in early New Orleans founded to promote designated improvements, and what is more remarkable, successfully carrying them out so that more than in most cities the banks were *prima facie* the chief factors in the great development of the state.

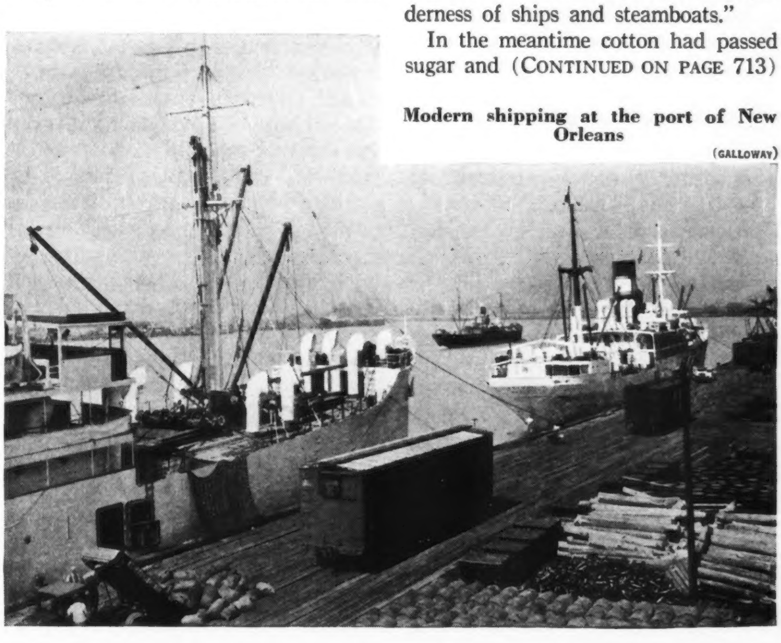
In 1837 the city had 15 banks with a capitalization of $54,000,000 and with two-thirds paid in, and prospects seemed amazing. Then came the crisis, and like other banks everywhere, the New Orleans banks stopped specie payments. The three municipalities of the city, in order to supply currency, issued bills running from a bit (12½ cents) to $4, but this paper itself depreciated. It was not until 1842 that most of the banks resumed specie payments and began again to finance the rapidly increasing commerce.

The era before the Civil War marked the zenith of the steamboat trade and perhaps the busiest years in the history of the city. New Orleans was the fourth city in the country and vied with New York as a port. A visitor from New York in 1851 was amazed at the "wilderness of ships and steamboats."

In the meantime cotton had passed sugar and (CONTINUED ON PAGE 713)

Modern shipping at the port of New Orleans

(GALLOWAY)



ARGUMENTS FOR CANCELLATION

THE cancellation or modification proposal rests upon the theory that the debts are uncollectable; that Great Britain cannot pay unless it receives payment from France and Germany, that France cannot pay unless it receives payment from Germany, and that Germany cannot pay at all. Business in Europe cannot recover so long as uncertainty over the question continues; therefore the United States is losing more in trade in continued world depression than it would ever receive by the collection of the debts.

Even if the debts could be collected the continued transfer of so much money to the United States would constantly undermine European currencies, demoralize European finances and prevent normal trade. Payment of debts so far is largely responsible for the concentration of the monetary gold stocks of the world in France and the United States to the complete demoralization of world finance, and world trade is being subjected to "progressive strangulation."

The debts can be paid only by the transfer of goods, leading to abnormal imports into the United States and the demoralization of American industry. Payment involves struggle on the part of debtor nations to secure dollar exchange, resulting in a constant check on American export trade with these countries. The expansion of exports of debtor countries necessary to enable them to pay the debts will involve American exports in killing competition in world markets.

The inter-governmental debt and reparations problem is responsible for the political and social unrest in Europe, which in turn is responsible for most of the economic ills from which Europe is suffering. So long as the cause of unrest remains, there can be no world recovery.

The debts are not morally due since they represent advances made by the United States in a common cause for a common end, and represent an American contribution in support of European efforts which saved the United States a vast outlay of men, money and resources.

Europe needs the money. The budget of none of the European nations concerned can continue to be balanced if the United States insists upon collecting the debts.

After the Moratorium— WHAT?

INTERNATIONAL conferences on inter-governmental debts have come to be seasonal affairs. Each recurring June wedding season witnesses a gathering at Lausanne or Basle or any one of a number of pleasant European places of sojourn for a conference on world ills, chief of which seems to be Germany. The conference at Lausanne in June will be the sixth major gathering in the series since the Treaty of Versailles.

A year ago the series of conferences was inaugurated following the inter-governmental debt moratorium. Three years ago was the conference culminating in the Young plan adopted in the following January, four years ago another, and so on back eight years to the conference which produced the Dawes plan. Rather a long procession is culminating at Lausanne, Switzerland, in June and not the least of its interest is the uncertainty as to where it is going.

It would be unfair to state that these conferences have had no results. The fact remains that so far as any determinate settlement of the inter-governmental debt and reparations question is concerned the world is just where it was one year ago, two years ago, eight years ago. The Versailles Treaty set a standard of reparations and inter-governmental payments so impossible of attainment that it has undermined the implications of the entire agreement. The Dawes plan had the merit of bringing some order out of chaos, but within less than four years was found to be unworkable. The Young plan was offered as a final settlement after several years' deliberations. Reparations payments were to be commercialized and, as evidence of somebody's good faith in the matter, Germany was granted a $300,000,000 loan with which to meet its engagements—much of which was loaned by the United States and then returned to the United States as an inter-governmental debt payment.

Nevertheless, within a year President Hoover's proposition for a moratorium on inter-governmental debts became necessary. Within this year of moratorium there have been conference after conference, experts' committees, committes of bankers, frenzied diplomatic negotiations, increasing tension in international politics, uncertain but increasingly depressed finances, tariff wars, limitations of imports by quotas, exchange restrictions, and increasing defaults on national obligations all over the world culminating in the practical bankruptcy of Austria, Hungary, Greece and Bulgaria as the latest victims of world conditions. There comes a warning from the finance committee of the League of Nations that world disaster cannot be prevented unless there is a prompt settlement of the question of inter-governmental debts and reparations.

ARGUMENTS AGAINST CANCELLATION

ARGUMENTS against cancellation rest upon the idea, in President Coolidge's classic phrase, "They hired the money." While some of the advances went for war purposes, much if not most of them went to the borrowers after the Armistice and were for other than war purposes.

The United States has already remitted more of the debts than the sums actually devoted to the war.

The debts are due the United States from France and Great Britain independent of whatever sums France and Great Britain may collect from Germany. In other words, they have nothing to do with reparations.

The sums now due the United States were determined upon the basis of each nation's "capacity to pay" and represent what these nations can actually pay under normal circumstances.

European nations other than Germany would have little difficulty in meeting their obligations to the United States if their expenditures for armaments were reduced to reasonable proportions consistent with their anti-war treaty professions, and if other economies were made.

The cancellation of the debts means that the final expenses of the war will be passed on to the American tax-payer to the relief of the European tax-payer who has already had the benefit of American generosity.

European troubles are due to other causes than the reparations problem. There is no certainty that a remission of the debts due to the United States will lead to any better political or economic conditions in Europe, assuredly no certainty that it will lead to any revival of international trade such as would justify us in making the proposed sacrifice.

The United States needs the money. The past year's moratorium on inter-governmental debt payments is responsible for more than 10 per cent of the present deficit and a remission in the coming year would mean an increase of about $250,000,000 in the public debt in spite of budget balancing otherwise.

This one thing is sure: a continuation of the present uncertainty and financial demoralization in Europe is costing the United States a whole lot of money

Warnings there are in plenty, but to what end? The result can be summed up in the report of the committee of experts of the Bank For International Settlements appointed to consider the position of Germany. In December this committee reported that Germany cannot meet the payments demanded of it after the first of next July; that the Young plan no longer fits world conditions; and that adjustment of reparations and other war debts to the troubled situation of the world is necessary as a preliminary condition to world economic stability and as a means of avoiding the results of an unprecedented crisis. The committee reported that the crisis has assumed a world wide range and that "the German problem, which is largely responsible for the growing financial paralysis of the world, calls for concentrated action which the governments alone can take."

As an indication of what action the governments will take, the Congress of the United States in authorizing the year's moratorium positively refused to consider a new debts settlement by an international commission or otherwise, while Premier Laval in France announced France's positive refusal to consider a modification of the Young plan and that country's insistence upon collection in full of the unconditional reparations payments.

Thus it is that after a year's discussion, doubt, suspicion, recrimination, and uncertainty the world stands exactly where it stood before the Hoover moratorium. The only certainty evolved in these months is the certainty that Germany cannot pay, that France insists upon payment and is unwilling to pay its own obligations unless it can collect from Germany, and that the United States will not remit or revise the debts—at least it says it will not do so. The year's moratorium ends on June 30. After the moratorium, what?

Every international conference so far has dealt with the problem as depending upon the situation in Germany—Germany's unwillingness to pay, its ability to pay, how much it can pay and when, German private debts, how much the Germans spend on their meals and the quality of German beer. In the European view, Germany is the key to the situation. Official America has no objection to this viewpoint if Europe can "get away with it," but it has no intention of permitting the United States to be the goat in case the European idea does not work. The attitude of official Washington is that, while the German problem is one of vast importance and interest to the world as a business proposition, it has nothing to do with the matter of inter-governmental debts due the United States. What the Government in Washington wants from the Lausanne conference is an agreement between the nations of Europe which will put some order into the chaos of European finances and enable these nations to meet their obligations to the United States.

The Administration has carefully refrained from taking any steps indicating any intention of modifying the existing agreement, and rumors that such were its intentions have been promptly denied. It has been hinted by some one that the Administration has hinted to some one that it might take a different attitude toward any definite proposition (CONTINUED ON PAGE 726)

Golf is at its best when played for fun, even with its moments of despair

A Health Plan for the Well-Managed Banker

An Occasional Audit May Reveal Hidden Assets

By C. WARD CRAMPTON, M.D.

A BUSINESS, a bank, and a banker begin every working day with the accumulated assets and liabilities of the past. A well managed business, a well managed bank and a well managed banker know these assets and liabilities and know them well. Ignorance and guess-work are bad business, bad banking and bad life management.

It is characteristic of the modern executive that he himself knows his own physical liabilities and assets. He has on file reliable reports on the subject. He has chosen the best available life auditor he can find, he gets himself audited and proceeds accordingly.

As in the management of an automobile, another complex organism, he knows that he cannot climb that hill in "third," but he can in "second" and he does it easily and goes on. He knows that the broad inviting boulevard ahead ends in a swampy detour ten miles onward and he detours before he is compelled to do so and he goes on free and far. For the rest, he knows that he has a good chauffeur. There is gas in the tank, air in the tires, and water in the radiator. His rewards are speed, safety and accomplishment—he arrives.

To attain a health audit by a skillful physician who knows men as well as medicines, is the obvious thing to do. Agreed. Yet for all except the most self-directed men this knowledge needs the heat of necessity, the urge of pain, to develop it into action. Before a health audit is decided upon, certain pointed facts underlying the above statement will help to penetrate into that carefully guarded sanctum of consciousness where decisions are made.

First, there are liabilities. What are they? How recognized? How amortized? Secondly, there are assets, present and potential. How may they be identified and developed?

Liabilities: We know almost what to expect when we examine 100,000 men of 50 years of age. More than half will have nasal defects of one kind or another and about 44 per cent will have teeth that require attention. Others, in proportions which are almost constant for any group of 100,000, will have defective vision, faulty posture, arterial thickening, flat feet, cardiac trouble, high blood pressure, frequent colds, etc.

Every one of these is a liability or a sign of one or more liabilities of varying evil. This list is not complete; there is a large assortment of the less common evils. Let no one, however, chill at the thought that he has all of them; he has his own selected few. In a body which has been used half a century, a certain amount of vitality is to be written off each year for depreciation. This depreciation is offset by increased assets in the form of experience and is minimized by intelligent upkeep. A study of the schedule reveals the fact that very few of these common liabilities are painful; or obviously they would have been discarded if such were the case. As a rule, these conditions have lasted a long time; they have been endured but they have done harm.

But the slow tragedy of it all is the startling fact that they are mainly signs or causes of the great deterioration diseases which are killing increasingly after 50 years in spite of the advances of medical science. They are: Myocarditis, Angina, High Blood Pressure, Bright's Disease, Diabetes and their close relatives. There are four great groups of infections, one or more of which are common causes or factors in most of the above mentioned organic deteriorations. They are (1) tuberculosis, (2) syphilis, (3) the focal infections of the staphylococcus, (4) the streptococcus groups of bacteria. They show in kidney, prostate, skin, sinus, gall bladder, joints, brain, nerves, arteries, heart, etc., which they shortly damage and eventually destroy. If left alone! There are more. They are all subject to liquidation, partial or complete, if taken in time.

Assets: Carrying on with weak, troublesome organs uses up good assets and good vitality. The self-managed business man sometimes will profit by literally cutting them out. But there are richnesses of living above the common mediocrity of the average man's life which can be bought by the man who knows how because he has been audited and informed. There are undeveloped resources in diet, exercise, management of program, rest, the subconscious mentality (CONTINUED ON PAGE 729)

Exercise is useful in three ways: (1) entertainment, (2) organic stimulation, and (3) structural improvement. The most important of these is entertainment because it helps, as a rule, to bring the other results in its train.

This Business of Crime

By JAMES E. BAUM

IN the past decade, crime in this country reached the proportions of big business, keen, influential, strongly organized and fortified to outwit the law despite the efficient services of police and prosecutors. Even the casual student of current events realizes that crime has thrived until it represents one of the major elements which inflate the cost of conducting legitimate business, and that means the cost of living. Authorities agree that the *direct financial* loss through crime has increased since 1919, our present crime bill exceeding $4,500,000,000 yearly or more than the annual budget of the Federal Government. Double this figure to account for the rapidly expanding costs of our numerous investigative and police forces, criminal courts and penal institutions and we gain some idea of the tremendous tax which crime in America inflicts upon all our people.

One hundred thirty-six years ago an American ambassador to France declared that his country had "millions for defense, but not one cent for tribute." Nevertheless, the past ten years have witnessed the appalling spectacle of a carnival of crime causing an annual loss which exceeds the dollar cost of all the wars engaged in by this country prior to the World War. Like Mark Twain's wheeze on the weather, "Everybody talks about it, but nobody does anything."

Nowhere else in the world does crime play such an important part in the economics of everybody's daily life as in this great land of opportunity. Nowhere else will you find such a heavy proportion of all crime to be crimes of opportunity, created by the victim and seized upon by the criminal. Opportunity again knocks at the criminal's door to freedom as a result of the business-like view taken by so many victims toward prosecution, particularly when the amount of loss is covered by insurance. Too often the time and expense necessary for prosecution are looked upon as a net loss or unnecessary expense. When a successful prosecution requires extradition or traveling to prove identification of the prisoner, the time and expense incurred frequently exceed the amount of loss. These advantages to the crook in evading prosecution are well known to bankers, but of greater importance is the fact that the crook is also alert to these advantages and means to capitalize them to the limit. When these barriers are overcome and prosecution seems likely, the bank crook is business-like and smart enough to offer restitution. If restitution is accepted, prosecution is compromised and weakened, sometimes to the point of exposing the victim to the charge of compounding a felony.

Mr. Baum is Deputy Manager of the American Bankers Association in charge of the Protective Department

The bank bandit, swindler or bad check passer is nobody's fool. If he can buy his freedom through restitution to the one victim, he is again foot-loose and free to round up more victims. Therefore, it is self-evident that any protective system which condones crime by restitution or otherwise serves no practical purpose. In the last analysis, the effect of this practice penalizes those who avoid loss by diligent care to the advantage of others who take chances.

Reasoning along these lines as early as 1891, the American Bankers Association prohibited every member bank from condoning or compromising any crimes reported to the Association. For more than 40 years, this rule against compromise and concentrating its activities toward prevention of loss have been cardinal principles of the Association's warfare against criminality. Throughout that long period, experience has proved this policy of relentless investigation and prosecution to be the most effective in serving the interests of our membership as a whole and to the disadvantage of none but the criminal. Moreover, it serves to uphold the law.

The spirit and principles of organization could be applied to no better purpose than the suppression of crime, a task which rests largely upon the will of our people to stamp it out. It is a big job which requires the combined forces of a people sincere and courageous in their convictions, but the road ahead can be cleared.

To begin with, we need a change of heart and a clearer, undivided conscience toward law enforcement and the administration of justice. The effects of sumptuary laws are obstructive to the suppression of crime and conducive to more serious crime, but they can be modified or repealed.

We are entitled to adequate and more efficient police power equipped with modern arms, transportation and communications to give the police an even chance with the underworld. We must look upon the underworld as another world whose population has more than trebled in the last decade and whose inhabitants are a menace to good government and undesirable risks to any legitimate business. If the principles and privilege of self-government are to survive, our citizens must show a higher regard for the power of the ballot-box by casting a vote more representative of public opinion. So long as only half of our eligible voters exercise their franchise, we must expect to bear the burdens of government by default and prepare to safeguard our interests against the combined forces of corruption and crime.

About an Old Bank

By L. INGELSTROM

Nubby pens, iron inkstands, and a bottle filled with bird-shot for cleaning the pens completed the accessories of the table

A BIG room, with light streaming through the small panes of the high windows with their inner shutters. Pots of pink geraniums filled the south window. At one of the west windows stood a Boston rocker; near this was a three-cornered chair long envied by bond men with the antique fever.

A couch, used by the late treasurer for cat naps in the evenings when pressure of work forced late hours, stood against the north wall. Facing the west windows was a row of shelves filled with law books, bank reports and a copy of David Harum. On the wall above the books hung a picture of a St. Bernard dog long since dead. A flat-topped desk stood between the west windows and a roll top desk filled the nearby corner. This was the front room.

Here were performed the pleasant rites of watering the geraniums and mopping up the floor. More than once a bond man had to stand in the doorway until a path was made for him to enter and sell his gold debentures. But to the undying credit of this noble fraternity not one ever indicated a contempt for the humble task or for him who performed it. It is possible they all felt an agreeable lack of austerity due to the floor mopping business!

The middle room just beyond also blossomed with geraniums, white blossoms these; and added to this floral display was a lobster cactus whose long-awaited pink flowers were greeted with delight at the Christmas season. The flowers were not dusty, drooping flora. No, indeed! They blossomed their little heads off in gratitude for the vigorous use of the letter opener which functioned as a spade, and the liberal sprinklings from the long-nosed tin watering pot.

In this room all counter work was carried on, the public space being achieved by a dividing grille work reaching to the ceiling. A small desk, directly under the hanging pot which contained the lobster cactus, was crowned with a typewriter of uncertain age and temperament; directly across was a tiny stove (a most efficient waste basket), and a scarred old letter press rested its iron weight on the counter at the farther end.

The cards were in a compartment of a high, wooden file and a tall stool was necessary for any prolonged session with them.

No separate slips were used for deposits and withdrawals; entries of the former were made in a long book by the clerk or treasurer at a raised portion of the counter; for withdrawals a huge book was pushed across the counter and the customer signed his name in it as a receipt for the money handed across. Of course, he could read the names of his neighbors who, like him, had found it necessary to climb the stairs for needed funds. This lent a dash of relish, sometimes, but its disadvantages were obvious.

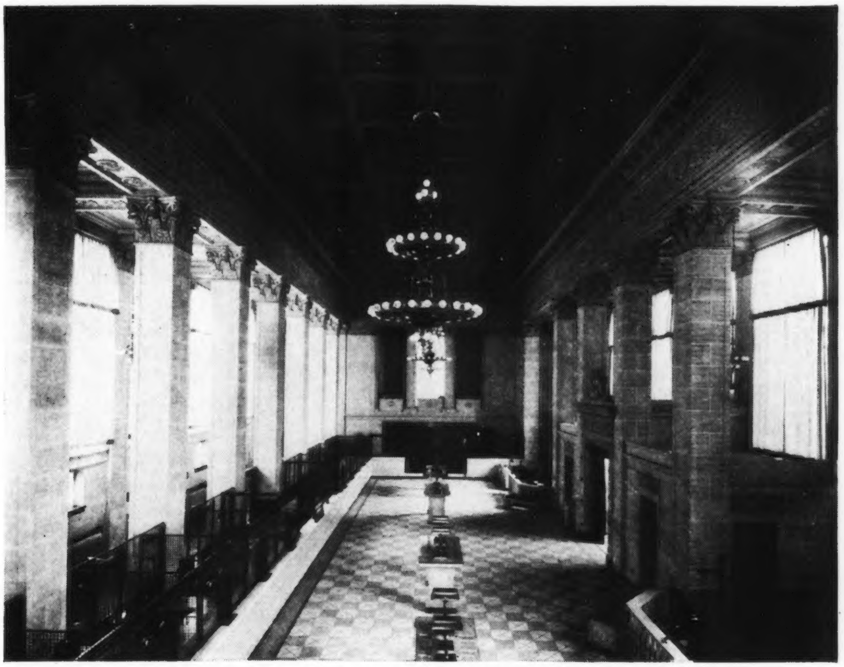
There were no alarms to ring, no tear gas bombs, and no hold-ups requiring the use of these devices.

Next to the entrance leading to the back room was the door to the vault. A combination opened it; there were no time locks, no shining steel. A fine pencil line of gold was the chief decoration on its black, painted door. A late afternoon customer could always be accommodated because this door could be opened easily, and the entrance door leading into the lobby was rarely locked until the departure of the treasurer and the clerk.

The back room, beyond the middle one, was a refuge when a long siege of checking was anticipated. Here, on a hot August afternoon, with not a sound to break the drowsy quiet except the clock striking the hour from the Unitarian church tower on Main Street, the business of reading off figures was carried on. Interruptions occurred when the sound of feet coming up the stairs and into the hall indicated business in the middle room; and a dry throat, filled with the dusty figures of too much checking, was the signal for a quick excursion to the drug store next door where ice cream cones were obtained and brought back for consumption.

The work table was nearly eight feet long, covered on top with a green cloth, and a most desirable affair for spreading out quires of reports that often were buried under this snowfall of records. Nubby pens, iron inkstands, and a bottle filled with bird-shot for cleaning the pens completed the accessories of the table.

There was not much other furniture in this room aside from a cupboard, very long and nearly reaching to the ceiling, and bursting with annual, semi-annual and demi-annual reports, books, and old (CONTINUED ON PAGE 728)



With public space in the center, this banking room provides convenient arrangement with adequate light and ventilation

And Modern Bank Interiors

By JOHN HANCOCK CALLENDER

TODAY the customer entering a modern bank walks into a light, airy room which looks like the efficient business exchange that it is. The guiding principle in the design of the interior is its effect upon the customer. The bank is being made a desirable place for him to come to, and it must create an atmosphere which puts him sufficiently at ease to transact his business comfortably and pleasantly. It is interesting from this point of view to analyze several factors in the design of bank interiors.

On any site more than 40 feet wide, there is a choice of two types of interior arrangement. One type is where the working space projects into the center of the room and is surrounded by the public space which forms a horseshoe about it. The other is where the public space is in the center and is surrounded by the working space. Many consider the latter plan more direct and convenient for the public. Customers enter directly into the center of things and can see immediately the proper wickets and go to them without wandering from one wing to another. Furthermore, this plan gives a more open and receptive interior, decidedly more pleasing to the eye and certainly better psychology than the abrupt obstruction across the entrance required by the other plan. This would seem to be preferable for the large or medium sized bank of today.

The small bank on a lot less than 40 feet wide, however, has no choice—public space on one side, banking space on the other. The character of the room in this case must depend largely upon necessity rather than preference.

NYHOLM & LINCOLN

In some cases the working space is projected into the center of the banking room

Another important feature in its effect upon the public is the bank screen, the artificial barrier erected between teller and customer, and through which most of the business of the bank must be transacted. Until recently such a screen was one of the most universally accepted traditions of bank design, effectively dividing the banking room into two divisions and completely destroying the intended architectural effect. The customer was completely shut off from the operating personnel and could deal with the tellers only through small barred windows. The last

GALLOWAY

Here the officers and special departments give the right of way to the tellers by location apart from the lobby

decade has seen a steady lowering or other modification of the screen until in some cases it has disappeared entirely, leaving only an open counter. But in any case, the motive is the same, that the banking room should be more open, attractive and business-like in appearance, and that it should welcome the customer and invite him to do business there.

The tellers' cages too are less reminiscent of prison cells, and in some cases have disappeared entirely. Low divisions only between the tellers are found in many new banks, and in some cases these are being eliminated entirely, leaving the space behind the counter unobstructed.

With the increasing mechanization of the bookkeeping department, the problem of noise from the machines has become important. For the comfort of customers as well as other departments of the bank, the bookkeeping department should be located in a separate room, preferably on another floor and thoroughly soundproofed; and the floor should be equipped with a flexible duct system for electrical outlets. If a separate floor of the building is used, an upper floor is preferable to the basement or mezzanine for better light and ventilation.

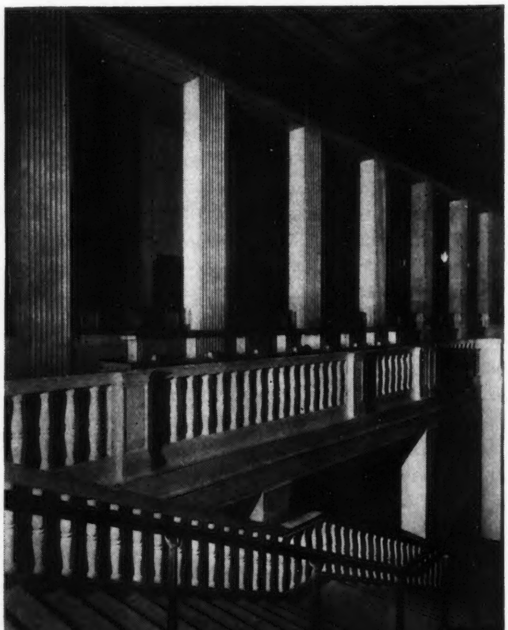
The safe deposit vault, with its great door of polished metal and its double array of bars in front, was often the featured element in banking room design a decade or more ago. It was placed at the terminus of the principal axis immediately opposite the entrance, and often was further emphasized by being raised several steps above the floor level. For a number of reasons nowadays the vault is usually placed elsewhere, more often in the basement. One reason is that most banks have found it desirable to keep the safe deposit department open after regular banking hours, and it should be so located that it will be accessible at such times. A second reason is that the safe deposit department is not sufficiently important to justify its dominant location. Moreover, projecting as it did far back into the working space, it divided that space inconveniently and impeded circulation. And again, the prominent location of the safe deposit vault allowed insufficient privacy to the customer entering to handle his papers and other valuables.

Not the least important reason for relegating the safe deposit vault to the basement is the desire to rid the main banking room of this prison-like apparatus of bars, locks, and armed guards. In this connection it is an interesting fact that when Rivera's frescoes of New York, including a realistic picture of a safe deposit vault, were shown recently at the Modern Museum of Art, many people mistook the vault for a jail and it was so described in several reviews. The banker today does not wish to greet customers with this jail-like sight.

Some years ago, in the process of "humanizing" the bank, the officers were taken from their hidden sanctuaries and were located within a low enclosure at the front of the main banking room. Although an excellent idea in many ways, the majority of well planned banks today place the officers' enclosure at the rear or to one side. The convenience of the public again dictates this plan because the greater number of people entering a bank transact their business directly with the tellers and relatively few must see the officers. Therefore, the tellers' counters should be as near the front as possible.

If the enclosure is placed at the rear, the officers will have easy access to their private conference rooms which are usually located in the rear or on the mezzanine. The latter is also a common location for the directors' room.

Effort is usually made to keep the savings department separate from the commercial (CONTINUED ON PAGE 709)



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The savings department may be located upstairs or downstairs, and the safe deposit department as well

Country Banks Can Be Profitable

But Not in the Face of Unbridled Competition

By W. ESPEY ALBIG

THE flight of demand deposits to metropolitan banks and the consequent necessity for some country banks to sell bonds at low prices to secure adequate cash and reserves—the two phases of this problem discussed in the April JOURNAL—are only parts of the present picture of the country bank. Entering into the picture also are the newer methods of financing by larger manufacturing and distributing units, as well as the changed conditions in industry and agriculture. However, these apparently have simply accelerated the growth of the trend.

Another factor is operating profit. More and more in recent years banks have found net earnings declining. The explanation for the lack of acceptances and of commercial paper in the bank's portfolio is easily made, as these securities afford a low yield and the unit of purchase is comparatively large. In other words, they do not afford enough profit.

The reason for the absence of Government securities arises from another cause. For the last four years at least, all indications have pointed to large issues of Government paper with consequent probability of decline in price. While prudence urged larger purchases, other considerations frequently carried more weight. The country bank no less than the bank in the larger city should show a profit in its operation. The change unfavorable to the country bank has come gradually.

The time was when banks were the chief financial agencies in any district. Bond buying was limited to a comparatively few families or institutions, and the bank supplied a complete financial service to the neighborhood. Then the securing of profit was not in competition with other financial institutions. Today the country bank must compete with the branch of a metropolitan bond house, with building and loan associations, with credit unions, with industrial banks, and with stock offerings by local industrial concerns financing their needs not through bank loans but through security issues. The opportunity for profit has been reduced and it is necessary, therefore, for the country bank to have as large a profit as possible from the investment account. In normal times the margin of safety is adequate, and possibly it would always be so with well-managed institutions if the factor of popular hysteria could be removed.

Institutions competing with banks are chartered without thought of what effect their overlapping services might have on those institutions already provided, or how the earning power of both the old and the new may be affected by the competition. They seek permission to operate in certain states and may be refused a charter by the banking department. The name then may or may not be changed, and the institution secures a charter under some other classification in a different state department and proceeds to conduct its business in the manner originally intended. Scant attention, too, is given to a fair basis of competition as represented by equivalent taxation and reserve requirements.

It is not unusual to hear the statement made that there were too many banks and some were bound to fail. The real meaning is that there is an overplus of financial institutions offering services almost similar. The story is told that when the late E. M. Statler was persuaded to build a new hotel in Buffalo, he bought the most prominent hotel there. On the day his new one opened, the one he had purchased closed its doors and was later transformed into a business building. Had the old one been permitted to operate in competition, both would likely have failed.

The recession in industry normally would reduce discounts which later appear as commercial deposits in banks, but why should the country banks bear the brunt of the decrease? Another factor lies in the merging of local industrial and merchandising units into one group and the consequent removal of its banking business to a large city.

Theorists may say truthfully that our commercial banking has drifted away from the Anglo-Saxon concept to the Continental type by investing in fixed capital, and that one of the great problems is how (CONTINUED ON PAGE 725)

Drawing a parallel from the railroad industry, casual observation shows that unregulated competing methods of transportation have been allowed to develop until the backbone of our national transportation system is in danger of collapse. Only drastic remedies can save it. Recently the Interstate Commerce Commission placed before Congress a report concerning interstate truck service, written by Leo J. Flynn, one of its examiners. He proposes a test. "Is there," he says, as quoted in the newspapers, "need in the public interest for appropriate regulation of motor vehicles for hire in interstate commerce for the present and future prosperity of all transportation agencies and for the assurance of a dependable national transportation system?"

May it not with equal pertinence be asked of Congress and state legislatures about financial institutions—"Is there need in the public interest for appropriate regulation of banking as to the number and types of financial institutions and the character of their service in order to assure the future prosperity of all banks, both national and state, and a dependable banking system?" Any less basic consideration will not mend permanently the present situation.

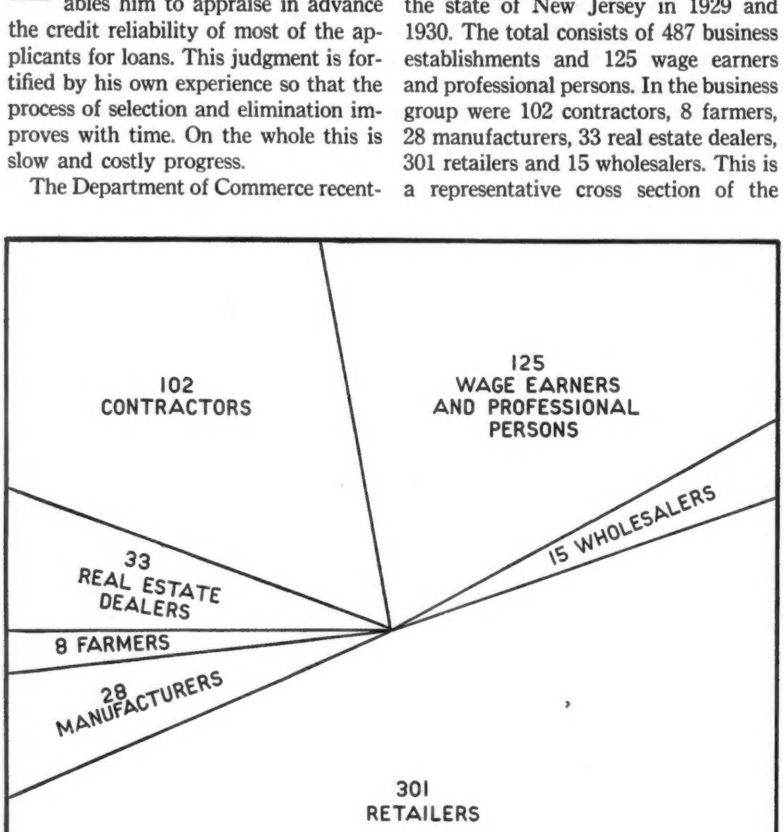
Symptoms Which Reveal the Potential Bankrupt

Several Tests Can Be Applied to Loan Applicants

By JOSEPH STAGG LAWRENCE

EVERY banker is endowed with a conservative judgment which enables him to appraise in advance the credit reliability of most of the applicants for loans. This judgment is fortified by his own experience so that the process of selection and elimination improves with time. On the whole this is slow and costly progress.

The Department of Commerce recently completed a careful laboratory study of 612 cases of bankruptcy occurring in the state of New Jersey in 1929 and 1930. The total consists of 487 business establishments and 125 wage earners and professional persons. In the business group were 102 contractors, 8 farmers, 28 manufacturers, 33 real estate dealers, 301 retailers and 15 wholesalers. This is a representative cross section of the clientele which appears at the average bank and applies for credit.



A representative cross-section of bankruptcy

It would be to the banker's advantage to be able to take his applicants into a laboratory as an engineer takes samples of his materials and there subject them to tests to determine their resistance to the stresses and strains of faulty decisions and community or occupational misfortune. That is an ideal state and the banker seems little likely to realize such a paradise.

In the analysis of the causes of failure a distinction must be made between those causes which are direct and peculiar to the client and those other causes which are general and fortuitous. There is little that the banker or the borrower can do to prevent the latter. However, much evidence indicates that the able borrower is less susceptible to economic adversity and is better able to weather the storms. It may well be that in most of the cases where bankruptcy seemed to be unavoidable or was due to a slump in real estate values, occupational collapse or unfavorable legal judgments, the victim failed to erect adequate safeguards. He permitted weaknesses to develop which made him an easy prey of unkind circumstances. In other words, the crisis which seemed to cause the failure may in fact have been only the occasion which demonstrated the unsound business conduct of the enterprise or individual which succumbed. The same is true of speculation. A man who otherwise conducts his business in accordance with approved methods takes speculative risks either in the stock market, in real estate or in his own business. In meeting speculative deflation he must strain his own resources so that

he falls before the first gust of business misfortune or stock market decline.

Consider now those causes of failure which can be ascertained before the creditor assumes a risk. What are the overt stigmata of poor business methods which make an applicant a poor prospect?

The first of these is the failure to keep adequate accounts. Of the enterprises which failed, 23.5 per cent kept no books at all and 29.4 per cent kept books which failed to show the condition of the business. Less than half of those that failed (47.1 per cent) kept books which might be considered adequate. When taxed for their failure to keep proper records one or more of three reasons were offered. The business was too small; the owners were too busy; they could not afford to hire qualified bookkeepers.

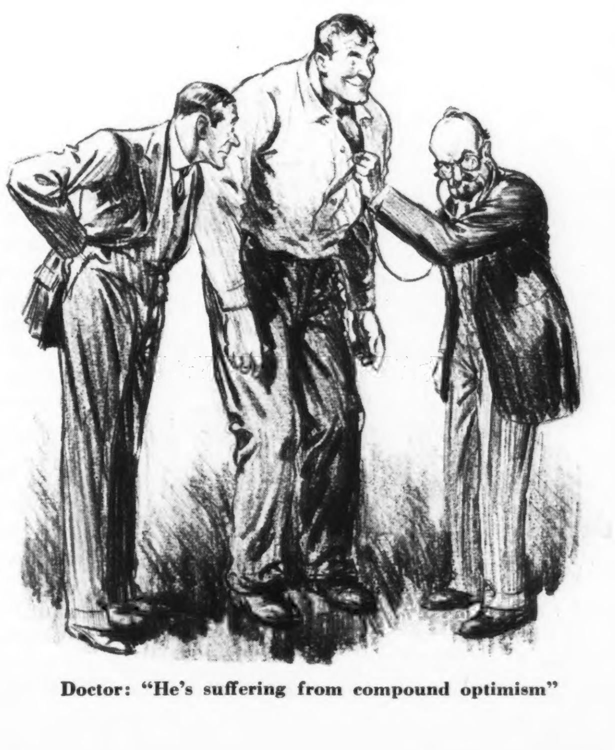
If inadequate records are a cause of failure, then the excessive occupation of the owners with other matters must, in the light of the unhappy issue, be considered a fatal error. Economizing on a bookkeeper if it contributes substantially to subsequent bankruptcy must be considered economy of the penny-wise-and-pound-foolish variety.

The investigation provided scant support for the contention that the size of the business did not warrant careful accounts. Judged by their liabilities some of the largest concerns were grave offenders on this score. Real estate dealers in particular were delinquent. The 33 cases studied had average assets of $11,501 and average liabilities of $135,572. Assets to begin with were only eight cents on the dollar and only a minute fraction of these was ever realized by the creditors. Yet 50 per cent of these failures kept no records at all and 25 per cent kept inadequate records. The 101 building contractors studied showed average assets of $8,112 and average liabilities of $53,899. In spite of the amounts involved they proved as a class to be seriously negligent in the matter of records, 34 per cent keeping none at all and 29.8 per cent maintaining accounts which the investigators described as "inadequate".

It was found among the reporting concerns that 39 per cent never took an inventory. The wage earner, the professional man and certain types of business have little occasion for a periodic tabulation of stock on hand. Any enterprise which buys and sells merchandise as a distributor or changes it as a producer should know at all times what it has on hand and what its value record is. There is no justification for such negligence on the part of a retailer or wholesale merchant, yet 31 per cent of the former and 40 per cent of the latter never took an inventory. Only five of the 17 bankrupt manufacturers took inventories.

A DISEASE THAT KILLS

THE credit experience of the failures studied indicates that one of the major causes of mortality is a disease which may be defined as compound optimism. That is to say. A customer persuades himself that he can afford a piano if the merchant will only grant him time in which to make payment. The sanguine prospect then fills the seller with the same gaseous confidence with the result that both find themselves subsequently in difficulties. The banker can easily secure from the applicant precise figures regarding his accounts receivable. He can determine the size of the average account and the length of time necessary to close it. His experience with installment credit can be similarly tested. If both show laxity or substantial prior losses, the applicant at once brands himself as a poor credit risk.



Doctor: "He's suffering from compound optimism"

During the year preceding failure the average loss from bad debts of the concerns which did a credit business was 7.2 per cent while the loss on installment credit was 17.1 per cent. Contractors were excessively lax. Those reporting had an average loss on open credit of 16.5 per cent with installment credit losses mounting to 28.8 per cent.

The banker is in a position to apply a precise test to the credit policies of the retailers. The Department of Commerce in a national retail credit survey found the average open account loss to be 0.6 per cent. As contrasted to this the loss of 76 retailers who failed was 4.8 per cent, a loss eight times as great as that of going concerns. Installment credit losses of failures were found to be five times as great as those of sound enterprises. The banker therefore should be on his guard when the applicant reveals credit losses above the average and particularly so when these occur in combination with a large proportion of sales on credit.

In this connection the use of credit bureaus by merchants should be examined by the banker. They are organized as clearing houses for credit information and succeed in stamping out thousands of unsavory credit beats. The merchant who ignores this assistance automatically places himself on a sucker list for these parasites. Only 13.4 per cent of the enterprises which failed used credit bureaus.

There are two other causes mentioned in this study of failures which the banker is in a position to note. The first is speculation outside of a man's own business. Where a plumbing contractor takes flings in real estate and a grocer uses funds which should have been employed in the payment of his own debts to play the stock market, they at once disqualify themselves for bank loans. It is poor judgment on the part of a debtor to use liquid resources in speculative ventures outside his own business where they may be wiped out over night. It is equally poor judgment for a banker to lend Smith $1,000 for "his business" when Smith at the same time has a margin account with a brokerage house which the banker knows.

(CONTINUED ON PAGE 730)

Thrift at the Capitol

Congress Face to Face with the Need for Economy

By WILLIAM P. HELM

BACK in the days of the Civil War there was a great deal of graft in connection with Government contracts. So Congress passed a law to end it. The law directed that a copy of every contract made by the Departments of War, Navy and Treasury (the three chief spenders) should be spread out openly to the world. Anybody who wanted to could inspect it.

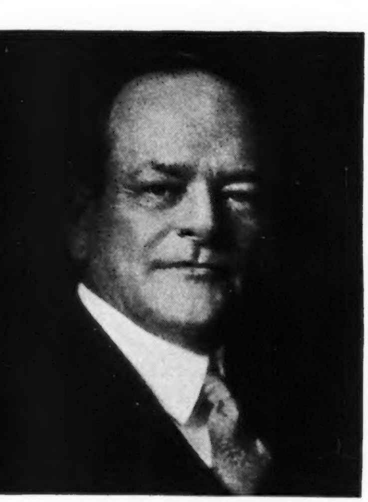
That was quite a public concession, for most contracts were secret in those days.

To accommodate the crowds expected to scrutinize the contracts, a new branch of the Government was created—the Returns Office of the Department of the Interior. A force of clerks was assigned to handle the rush, quarters were obtained and hundreds of yards of shelving built along the walls to accommodate the duplicate documents.

All these expectations were realized fully. There was a rush, resembling the Klondike rush of another generation. The public stormed the new Returns Office. The duplicate contracts poured in, each bearing on a gilt wafer the imprint of the Great Seal of the United States. Vari-colored ribbons, including the red, white and blue of patriotism, bedecked each document. From then on, till after Appomattox, color and animation prevailed at the new Federal branch.

Soon after the War ended, however, the public seemed to forget the Returns Office. The rush shriveled away to nothing. Most of the clerks were transferred to other work. A visitor became a rarity.

Thus ended the usefulness of the new branch. All that seemed to remain was a decent wind-up of its affairs. But were its affairs wound up? Not so that it could be seen with the unaided eye. No;



Representative John McDuffie of Alabama, chairman of the House Economy Committee working on this problem

the law was the law, and like Tennyson's brook, it ran on forever. So month after month, year after year, the three Departments continued to send duplicate contracts over to the Returns Office. The ribbons faded, the ink dimmed, the paper yellowed with age and the shelves groaned finally under more than 2,000,000 documents. And still they came.

For nearly 70 years this obsolete Government appendix drew its life-blood from the public Treasury. The last of the members of the Congress enacting the law was laid to rest with his fathers. Clerks in the office grew from youth to crabbed old age and still the office continued to function. It was entirely forgotten—save by the Treasury. At an average of about $15,000 a year, however, it continued to store contracts no longer needed or wanted, for more than 60 years after the emergency had passed.

All that the Returns Office had saved the taxpayers in graft it probably cost them for its continuing expense. Finally, just a year or so ago, it occurred to somebody in authority that this Treasury leak might as well be plugged. And plugged it was, after costing the taxpayers certainly not less than $1,000,000 for which little, if any, adequate return was received.

Such is one example of Government waste at Washington. It is one of uncounted dozens, scores or hundreds, according to the viewpoint of the enumerator, which seem to be in a fair way of drying up soon.

The movement to reorganize the functions of the Federal Government in the interests of efficiency, economy and better coordination finally is off to a good start at Washington. This step had been urged by Harding, Coolidge and Hoover, but until recently it got nowhere. Attempts at reorganization were made but they produced a net result showing but two or three shifts of bureaus from one department to another. Now a special committee of the House, formerly headed by Representative Byrns and later by Representative McDuffie of Alabama, has taken hold of the problem with vigor and earnestness.

The committee is called the economy committee. It has held hearings in Washington and bestirred itself generally at its task. There has been a great rattling of dry bones and an abundant crop of fresh fears on the part of those being led, as they feel, to the slaughter. There likewise is cause for general rejoicing among the taxpayers in Mr. Byrns' recent optimistic forecast that about $240,000,000 a year can be lopped off the public's bills through reorganization about to be proposed and put through Congress.

At the very outset of its work, the committee proposed to eliminate, so far as possible, over-lapping and duplication of effort. Of both, there is abundance, it would appear. More than 20 various branches of the Government, for instance, collect and distribute statistics, most of them closely related, covering various phases of business and social activity. Each serves a class patronage.

Doubtless there is room here for saving a few odd millions annually. Certainly there would appear to be oppor-

William P. Helm, the author of this article, is an authority on Washington affairs and possesses an unusually keen eye for the rust in our Federal machinery, as shown in his article here

tunity for extensive savings in the publication of much of this material. The Government Printing Office, biggest establishment of its sort in the world, is now engaged in publishing more than 60 daily, weekly, monthly and other periodicals, in addition to its mammoth crop of general bulletins and pamphlets. This material rolls out of the Capitol by the trainload year after year.

By the trainload, did I say? The statement is conservative. The two Houses of Congress alone pay more than $25,000 a year to young men and women simply to fold speeches (most of which are mere extensions of remarks in the Congressional Record) to send through the mails. I haven't counted the number of speeches thus recorded, but doubtless it runs to thousands every year. So heavy is the flow of franked matter through the mails that the Washington Postmaster arbitrarily is given a credit of about $4,000,000 a year, representing the Department's estimate of what it would cost to send this free matter out at regular rates of postage.

The economy committee doubtless will take a whack at just such wastes as that. Another minor, though important, waste concerns the mileage paid members of both Houses to cover their transportation to Washington to attend sessions of Congress and their return home. The rate is fixed (by law of 1866) at 20 cents a mile both ways, from the member's home. And the record shows that this is just about four times as much as actual railroad and pullman fares now cost.

A thrifty member, living in the Far West, easily can add $1,000 a year to his $10,000 salary by his mileage. Western Congressmen and Senators receive up to $1,347 for their mileage to Washington and back home. A recent listing of mileage paid 66 Senators coming on to attend the special session of the Senate in July, 1930, to ratify the London treaty of limitation of arms, shows $33,400 paid out. Published railroad fares show the total fare and lower berth charges for the 66 trips to have totaled but $7,433. That is excess fare with a vengeance, 77¾ per cent excess. And the group of 66 Senators probably is typical of all Congress.

The task of the economy committee is far beyond the surface imaginings of most laymen. To save the taxpayers $240,000,000 a year—and that big sum is only about 6 per cent of the total annual spendings of the Federal Government — would be a modern miracle under the present political circumstances. If Mr. McDuffie and his colleagues accomplish their purpose, they will blaze an uncharted trail in present-day Federal finance.

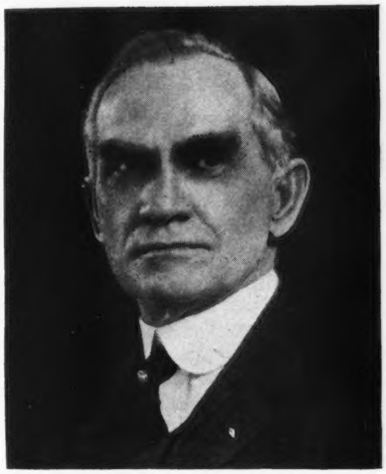
Whether criticism should be made of these Senators for accepting such exorbitant sums from the Treasury in hard times is a matter of opinion. They took the excess legally and in accord with long-established custom. Indeed, some of them did not even return home when the regular session of Congress ended, which was only four days before the convening of the special session. Under the law, a return home was not necessary. A member of Congress gets his mileage for attending each session whether he returns home or not.

House and Senate now appropriate $226,000 a year for their own mileage. At 77¾ per cent excess, this is about $175,000 more than is actually necessary, excluding tips and meals. Doubtless Mr. McDuffie's committee will do something about that.

There are certain fixed charges of Government, however, about which little can be done in the way of retrenchment. Payment of interest on the public debt, plus the sinking fund payments, runs to a total annual expenditure of $1,065,000,000 at the present time. The total budget estimates for the coming fiscal year are only $3,890,000,000, so here is more than one-fourth of the cost of Government that is untouchable so far as retrenchment is immediately possible.

The economy committee therefore must look elsewhere for its savings. Some will come from national defense. The War and Navy Departments are down in the budget estimates for a total of about $750,000,000. That total, already pruned by Congressional committees, probably will be cut still more. There is danger, however, in cutting the twin services too deeply—a danger of which the economy committee appears to be aware. Already Army and Navy are down to what the experts call the bare boards of necessity. To weaken them unduly would invite national disaster.

The largest single item of expenditure



Representative Joseph W. Byrns of Tennessee, former chairman and an active member of the Economy Committee

revolves around the Veterans' Bureau. In reorganizing that big branch of the Government, the economy committee probably will meet its stiffest opposition. The veterans' block in Congress probably comprises a majority of both houses. Yet the Veterans' Bureau is down for $829,000,000 next year in the budget estimates and, if possible, something should be done by reorganization or otherwise, to reduce the total.

While the big affairs of the bureau—pensions, hospitalization, etc.—probably will not be shrunk by the committee's proposals, there are certain other savings possible. More than 300 major employees of the Veterans' Bureau, for instance, are today retired officers of the World War. That is, they are retired on three-quarters pay as being 30 per cent or more disabled because of their War Service, although, as a matter of record, many of them never left the country during the conflict.

These employees, whose average salary approximates $4,000, also receive retired pay from the Government. One of the major employees of the bureau, for instance, receives $9,000 a year salary and $187.50 monthly as retired pay as major. This is the sort of thing that will engage the committee's attention. Probably $1,000,000 a year is being paid, in retired pay, to officers now drawing good salaries in the Government service.

Construction, roads and public buildings, is down for about $400,000,000 a year in the budget estimates and even the economy committee would have vast difficulty in lowering that figure. The committee probably regards that expenditure as wholly justified and

won't attempt a curtailment of it at present.

These major expenditures leave less than $1,000,000,000 of annual spendings from which the committee may whittle its chief savings via reorganization. And that $1,000,000,000 covers the full routine activities of more than 150 boards, commissions and bureaus. The conviction is growing that mere reorganization can never effect a big saving here, and that the task ahead is more than simply reorganizing the Federal service.

By actual count, Congress has given the Federal Government more than 25,000 jobs to do all the time. These vary from prohibition enforcement and saving coal miners to testing high temperatures and making long-range weather forecast material available to scientists. They include such miscellaneous things as supervising the drinking water on trains, taking children under age out of the beet fields and other occupations where they sometimes stray, manufacturing printers' ink, stitching mailbags, poisoning prairie dogs and making daylight pictures of stars.

Now, asks the committee, what business has the Government of the United States in all that sort of activity? Some of the many tasks it manifestly ought to perform, but many could be dispensed with. So the committee faces the job not only of reorganizing the Government's forces but of lopping off certain Government activities.

And there comes the rub. What activities should be lopped off? It may look strange to unfamiliar eyes, but the bald fact is that practically every single undertaking to which the Government puts its hand today is ardently championed by a large or small group in both House and Senate. Touch but a single activity, and the effect is the same as if you jabbed a pin into your neighbor's leg. A howl of pain arises under the dome of the Capitol.

The veterans' bloc and the farm bloc are the most powerful in Congress today, but other lesser groups are strong to reckon with. To cut expenses in items concerning veterans and farmers, the committee will need the wisdom of a serpent and the deftness of a cat. To cut any activity means to clash with entrenched interests in Congress. Mr. Byrns' optimism may be greater than his valor when he forecasts a cut of $240,000,000 a year. If he cuts off half that sum, or $120,000,000, he will be accomplishing what heretofore has been the unattainable.

THE NEW TAX LEGISLATION

The situation, its causes, the problem, the solution, probable action

During 1931 and 1932, the United States Government incurred large deficits. Jeopardy of national credit compelled action. The facts:

SITUATION:

Fiscal Year	Receipts (millions)	Expenditures (millions)	Surplus or Deficit (millions)
1930	$4,177	$3,994	$183S
1931	3,317	4,219	902D
1932*	2,242	4,482	2,240D
1933*	2,375	4,113	1,738D

*Treasury estimates, February 9, 1932.

CAUSES:

Four principal causes: (1) drastic decline of receipts during a business depression; (2) large emergency expenditures; (3) a revenue system with too narrow base; (4) two years' delay of remedial action.

PROBLEM:

To balance the 1933 budget by increasing revenue, decreasing expenditures, or both. Appropriations for Reconstruction Finance Corporation and Federal Land Bank could be treated as items outside the budget. Of the $1,738,000,000 prospective deficit, $497,000,000 representing debt service could be temporarily pushed aside. That left a minimum prospective deficit on current operations of $1,241,000,000. To find that amount was the problem presented to Congress.

SOLUTION:

After analysis of numerous suggested programs and extensive public hearings, the Ways and Means Committee drafted a bill which, after radical changes through amendments, was passed by the House. It pledges $200,000,000 of economies and additional revenues of $1,062,900,000, a total of $1,262,900,000 against a minimum need of $1,241,000,000. The new revenues proposed include:

TAXES ON "THE RICH"	TAXES ON BUSINESS	TAXESONEVERYBODY
Higher income, surtax and estate rates; reduced exemptions and administrative changes in income tax; gift tax; taxes on jewelry, furs, safety deposit boxes and yachts—	Higher corporate rates, lower exemptions, penalty for consolidated returns; taxes on bond and stock transfers and issues; taxes on trucks, coal, oil and pipe lines—	Taxes on admissions, radios, refrigerators, telephone and telegraph messages, malt, cosmetics, sporting goods, automobiles, matches, chewing gum, firearms, candy; increases of postal rates —
$394,500,000	$249,900,000	$418,500,000

$$\underbrace{\qquad\qquad\qquad\qquad\qquad\qquad}_{\$1,062,900,000}$$

PROBABLE ACTION:

Renewed attempts to balance budget more by economies and less by new taxes, with some moderate results from such attempts; perhaps further agitation for general sales tax as substitute for excises; material changes by the Senate in rates or in objects selected for excise taxes, but with enactment of bill along fundamental lines laid down by the House.

Events and Information

WITHIN THE ASSOCIATION

HEARINGS were held before the Senate Committee on Banking and Currency on April 2, and before the House Committee on Banking and Currency on April 4 and 5, upon various proposals to amend Section 5219, United States Revised Statutes, which limits the states in their taxation of national banks. A delegation from California representing the tax commission of that state urged certain amendments. The American Bankers Association and its Special Committee on Section 5219 had heretofore reached an agreement with the Association of States on Bank Taxation, composed of tax commissioners of the various states, upon a compromise amendment which is embodied in the Goodwin Bill H. R. 7928, and a simplified substitute for this amendment was presented to both committees and supported by representatives of tax commissioners and of the American Bankers Association. At the hearings, the Association also opposed the Norbeck Bill which would enable any state to place banks in a class by themselves and permit of their unlimited taxation.

Hearings have been held before a sub-committee of the House Committee on Banking and Currency on the Steagall Bank Guaranty Bill which is designed to provide a Federal guaranty fund for depositors in national banks and state member banks, the fund to be accumulated from earnings from the Federal Reserve banks and by contributions from member banks. The Association opposed this legislation and an exhaustive brief has been prepared and filed by the General Counsel in opposition.

Hearings were granted by the Senate Committee on Banking and Currency on the Glass Bill S.4115 to amend the Federal Reserve and National Bank acts in a number of particulars, beginning on March 23 and ending on March 30. The Association has actively opposed the bill as introduced and a delegation of bankers, composed of officers and representatives from different parts of the country, appeared at the hearings and gave testimony in opposition. A brief has been prepared and filed with the committee showing the deflationary effect of the proposed legislation.

The Executive Council of the American Bankers Association held its Spring meeting at the Greenbrier Hotel, White Sulphur Springs, West Virginia, April 25 to 27, inclusive. A more extensive account of the reports and discussion will appear in the next issue of the JOURNAL.

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Congressional Hearings in Washington

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Trust and Savings Conferences

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New Booklets

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WESTERN SAVINGS CONFERENCE

THE Western Regional Savings Conference met in St. Louis April 21 and 22 at the Hotel Jefferson. Pressing banking problems were covered in addresses and discussion, the subjects including investment of savings funds, advertising, real estate loans, hoarding, etc.

Speakers included William McChesney Martin, Governor of the Federal Reserve Bank, St. Louis; Jay Morrison, President of the Savings Division of the American Bankers Association and vice-president, Washington Mutual Savings Bank, Seattle, Wash.; Wood Netherland, president, Federal Intermediate Credit Bank of St. Louis; J. V. Holdam, assistant vice-president, First National Bank, Chattanooga, Tenn.; R. S. Hawes, president, Clearinghouse Association of St. Louis and vice-president, First National Bank in St. Louis; W. R. Morehouse, vice-president, Security-First National Bank of Los Angeles and former President of Savings Division.

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The juniors are preparing to delve into banking's many problems at the annual convention of the American Institute of Banking to be held in Los Angeles June 6-10. Detailed discussions will center upon audits and accounting, bank administration, business development and advertising, credits, deposit functions, investments and investment banking, savings banking and trust functions. Mr. Henry Mergler, President of the Institute and assistant treasurer of the Fifth-Third Union Trust Co. of Cincinnati, will preside. The opening address will be delivered by Dr. R. B. von Klein Smid, President of the University of Southern California at Los Angeles.

SOUTHERN TRUST CONFERENCE

THE Fifth Southern Trust Conference was held at the Hotel Noel, Nashville, Tennessee, on April 29 and 30, under the auspices of the Trust Division.

Speakers included Thos. C. Hennings, President, Trust Division, American Bankers Association and vice-president, Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.; T. O. Trotter, Jr., asst. vice-president, First National Bank, Chattanooga, Tenn.; Frederick R. Behrends, vice-president, California Trust Co., Los Angeles, Cal.; James C. Shelor, asst. trust officer, Trust Company of Georgia, Atlanta, Ga.; Raymond H. Trott, vice-president, Rhode Island Hospital Trust Co., Providence, R. I.; Maclin F. Smith, trust officer, Birmingham Trust & Savings Co., Birmingham, Ala.; Edward J. Reilly, trust counsel, Moody's Investors Service, New York, N. Y.; William A. Stark, Fifth—Third Union Trust Co., Cincinnati, Ohio; E. S. Parker, Jr., attorney, Greensboro, N. C.; A. Key Foster, asst. trust officer, Birmingham Trust & Savings Co., Birmingham, Ala.; Dr. Gus W. Dyer, Professor of Political Economy, Vanderbilt University, and Thomas W. Vinton, trust officer, Bank of Commerce & Trust Co., Memphis, Tenn.

NEW BOOKLETS

THE turmoil concerning international indebtedness and the part played therein by gold are covered in a booklet "Gold, Savings and Trade" written by Fred I. Kent, Chairman, Commerce and Ma-

rine Commission of the Association.

"Is Unemployment Insurable?" If so, what are the factors which should enter into a successful plan? These are discussed in another booklet issued by the Commerce and Marine Commission. The contributors to this booklet are James D. Craig, Actuary, The Metropolitan Life Insurance Company, and Leo Wolman, Professor of Economics, Columbia University, and Economist, Amalgamated Bank of New York.

Single copies of these booklets are available without charge upon request by member banks; additional copies, 15 cents each.

A comprehensive system for bank management by budget and accrual was published by the Bank Management Commission as booklet number 10 of the Commercial Bank Management series. In separate sections the booklet deals with budget of funds, budget of income and expense, and accruals. Additional copies are available at 25 cents each.

NEW STAFF MEMBERS

RECENT additions to the staff of the JOURNAL include Donald B. Woodward, associate editor, and A. C. McPhail in charge of production.

Mr. Woodward was formerly the financial editor of Business Week, a McGraw-Hill publication, and previous to that was on the staff of the Wall Street Journal both in New York and Washington. "A Primer of Money," a new book of which he is co-author with Marc A. Rose, editor of Business Week, has just been published by Whittlesey House.

Mr. McPhail was formerly financial manager of Review of Reviews, and previous to that was editor of the Bankers Monthly and the Bulletin, Rand McNally publications.

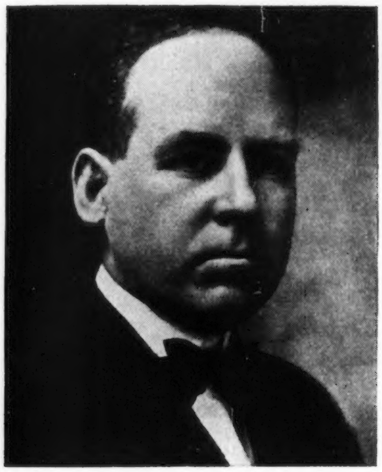
State Associations

DURING the next two months, May and June, state banking associations will be very active. Sixteen conventions will be held in the next 30 days, and 17 associations will hold their annual conventions during June. Together with the few conventions that already have been held, the two months will practically complete the state convention calendar. July contains but few meetings, and September even fewer in the state field.

The important place held by the state association has perhaps never been more marked than it is this year. Ever since the founding of the New York Clearing House in the middle of the last century, local treatment of local problems has been a recognized principle of banking. And much of such local activity centers in the state association and its subdivisions. The regional and national meetings, such as those of the American Bankers Association, dealing with equally fundamental problems of the broader scope, are the capstone.

J. A. SPEKENHIER

who became President of the Louisiana Bankers Association at its annual convention at Baton Rouge, April 18-19, is president of the First State Bank and Trust Company of Bogalusa



W. S. ELLIOTT

Vice-president and cashier of the Bank of Canton, Canton, Ga. was elected President of the Georgia Bankers Association at the Augusta convention, April 12-13

Most of the state meetings this year therefore are planned for the bankers of the state involved—as the North Carolina Association puts it "A North Carolina program for North Carolina bankers," in speaking of the program of their convention.

While a variety of subjects will be discussed, the various problems of bank management apparently will predominate among the topics. Among these are service charges, loan and investment policies, personnel, advertising, budgeting and cost questions. And the conventions will not be marked by formal speeches alone, for practically all of the programs allow ample time for discussion. The programs received also contain what appear to be excellent provisions for amusement and entertainment.

HAYNES McFADDEN

Secretary of the Georgia Bankers Association, with offices at Atlanta

Nevertheless most programs have some speakers who will paint the wider picture also. The main interest, of course, centers in local problems, but discussions of national and international events seem likely to have a more important place than usual.

The recent Congressional legislation affecting banking and especially the proposals that directly concern the state banks will be subjects for discussions in and out of the convention halls. And, with the recent wave of bank closings showing definite signs of subsiding, the problems of bank reorganizations and of group action among bankers in many communities for this purpose assumes added importance.

Despite rather unfavorable conditions which generally prevail, present indications point to good attendance at these sessions.

Stenographic, bookkeeping and other operational departments nowadays are located on the upper floors. Sound-deadening equipment lessens the noise of machines

Modern Bank Interiors

(CONTINUED FROM PAGE 698)

departments. A separate room or an entire floor is sometimes given over to it. In smaller banks the savings department is often located in the basement along with the safe deposit department.

The trust department in average-sized banks is perhaps best located on the mezzanine. Conference rooms are also usually on the mezzanine, and the officers may be there or nearby. In the small bank, the trust department may be established in the basement, along with the safe deposit vault and the savings department.

The bank vault should be placed wherever it will be most convenient for the staff. Sometimes it has been given the place of honor vacated by the safe deposit vault, but the reasons for not locating the latter at that point apply also to the bank vault. Its location has no relation to that of the safe deposit vault in the basement, and it need not necessarily be placed directly above. In a fireproof building, there is little or no need for a book vault.

Natural light is preferable to artificial light in every case. A banking room with ample natural light is far more attractive than a room artificially illuminated, regardless of how elaborately and beautifully it may be done. Natural light is certainly desirable for working space, and for the comfort and health of employees. Fortunately modern construction makes it possible to admit light in almost unlimited quantities throughout the day.

Even in the extreme case of a narrow building between property walls, a surprising amount of light can be admitted if practically the entire front wall is made of glass. This has been done successfully in a number of bank buildings recently erected in the larger cities, and in Germany there are some recent examples of translucent glass block construction for the walls and roof. The natural lighting of the bank interior has been facilitated further by reduction or elimination of the screen, permitting unobstructed light above the counter level.

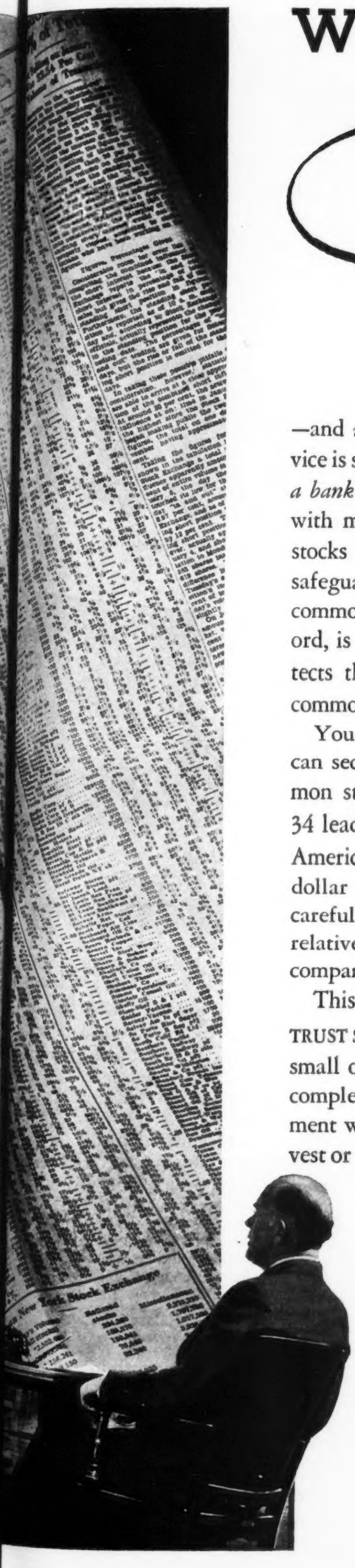
THE LIGHTING EFFECT

ARTIFICIAL lighting should follow the general rule of putting the light where it is needed, and with a minimum of general illumination. After each individual desk and the working spaces have been provided with adequate light, the room itself does not require high illumination. In general the less conspicuous this is, the better; and some form of concealed indirect lighting, such as cove lighting, is very satisfactory. The elaborate chandeliers often seen in banks of a decade or so ago give less satisfactory illumination and add to the expense.

With large windows and modified screens, bank buildings today have greatly improved facilities for natural ventilation. But if a mechanical ventilating system must be installed, it is probably worth the difference to get a full air-conditioning apparatus. Several metropolitan banks have installed such systems, and are said to have reduced their year-round losses due to sickness of employees, and to have stimulated summer business as well. Air-conditioning was discussed in an article in the JOURNAL for March.

The bank building of today, designed in accordance with the principles outlined in this article, is simple and unpretentious. There is no meaningless "decoration." It is clear-cut and business-like and makes no pretense of being other than a place of business. It is light and open and inviting. And by designing simply and honestly to fulfill the required functions, the building has an intrinsic character which has nothing to do with superficial "styles." Its character is built in, not applied as decoration. It invites business and is arranged efficiently to handle that business.

Tellers on one side and public space on the other, when the lobby is long and narrow



WHEN THEY SUGGEST

Common Stocks

WHEN a bank customer asks whether he should buy common stock—and *which* stock to buy—he places his banker in a difficult position. Unless the advice is successful, the banker will be blamed for disappointments. *What should you, as a banker, say to this customer?* Although stock prices are at depression levels today, with many good "buys" for the long-term investor, you can tell him that common stocks are a sound investment *only* when safeguarded by diversification. No single common stock, no matter how fine its record, is safe—but the Law of Averages protects the investor who buys many sound common stocks.

You can tell him of a *plan* by which he can secure an ownership, not in one common stock, but in the common stocks of 34 leading corporations in 12 outstanding American industries. The percentage of dollar investment in each stock follows a carefully worked out program, based on the relative investment atractiveness of each company within the industry.

This is the plan of NORTH AMERICAN TRUST SHARES, 1955 and 1956. Available in small or large denominations, they offer a complete program for common stock investment whether the investor has $150 to invest or $150,000.

NORTH AMERICAN TRUST SHARES PROVIDE:

1 **Balanced Dollar Diversification**—Each Trust Share represents an ownership in *the entire group* of 34 corporations listed at the left—leading companies in 12 outstanding American industries.

2 **Maintenance of Investment Quality**—A Research Department is constantly engaged in studies of the conditions affecting the investment standing of the stocks underlying NORTH AMERICAN TRUST SHARES, 1955 and 1956. If these investigations indicate that for good investment reasons, and solely for the purpose of protecting and preserving the quality of the investment, all or any part of any stock should be eliminated, such elimination may be made.

3 **No Substitution**—The net proceeds from the sale of any stock which may be eliminated are returned to the Trust Shareholder. No discretionary substitution is permitted.

4 **The Convenience and Safety of Trust Administration**—One of the world's largest trust companies, as Trustee, administers the investment for Trust Shareholders, handling all details connected with the receipt and distribution of dividends, the compounding of interest monthly on all moneys of the Trust in its possession, etc. The Trustee's continuing fees for the entire life of the Trust are provided for in advance.

5 **Marketability**—Trust Shares are bearer certificates which may be converted into cash or the underlying stocks at any time through the Trustee.

•

The offering price of North American Trust Shares is based upon and varies with the actual New York Stock Exchange 100-share lot transaction prices of the underlying stocks during market hours.

Complete details of the method of calculating this offering price are contained in the Offering Circular.

DISTRIBUTORS GROUP, INCORPORATED

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North American TRUST SHARES

New Orleans—BANKS AND CITIES

(CONTINUED FROM PAGE 691)

(GALLOWAY)

One of the oldest banks in the South, erected in 1805. Formerly the Bank of the United States, it is now a curio shop

molasses as the chief export of the city, and had been crowned as "King."

In the Civil War, the banks of the city were badly crushed between the acceptance of Confederate currency and loans to the Confederacy on one side, and on the other side, fines by General Butler because of such activities.

After reconstruction, the revival of the South depended on the financing of the cotton industry, and the banks rapidly developed the system that made cotton the big money crop of the South. Planters, buyers, shippers, and eastern and English manufacturers, all agreed that the progress of the cotton crop from the seed to the loom depended absolutely on the banks.

One of the banks of that era that helped to develop the cotton industry was the Hibernia, which was first organized in 1870 and is at present one of the great institutions of New Orleans. Fully as important was the Whitney Bank which was founded in 1883 by George Quintard Whitney.

From the same period dates the clearinghouse which was established in 1872, and the stock exchange which was founded five years later.

In the meantime the railroads were encroaching more and more upon the river trade. They had begun to divert freight from the river to eastern lines even before the Civil War, but their effects were not strikingly patent until after the conflict. Then it was discovered that even heavy freight such as cotton bales could be transported by rail, and that much of the traffic that otherwise would have come down the river was being railroaded to the Atlantic coast. The railroads developed such a network that at the end of the century it looked as if the steamboats might be starved out almost entirely.

But the river was not yet through. First the believers in water transportation developed a barge system that multiplied the freight that could be handled by a steamer. Then the citizens of New Orleans constructed a great inner harbor or industrial canal that connected the Mississippi and Lake Ponchartrain, making available 96,000 acres of harbor. For this improvement the banks underwrote about $25,000,000 worth of securities, and in 1923 the whole project was completed with local capital, without any assistance from the Government.

Just as important as these constructive plans were for the improvement of the city, are the problems of the preservation of industry that have been forced upon the banks of the cotton district by the current business situation.

The tremendous drop in the price of cotton together with the large crop has compelled the banks, the American Cotton Cooperative Association and the Federal Farm Board all to carry great loans which are practically necessary in order to keep the industry in motion. The Federal Farm Board is extending loans to the American Cotton Cooperative Association sufficient to carry 2,000,000 bales, and the banks are renewing loans covering 3,500,000 bales.

Thus these banks at present are playing a great part in the defense of the South and its industries against the effects of the depression, just as in the past they have been the major factors in the growth and development of the city itself, chiefly with local capital.

Measuring Results

(CONTINUED FROM PAGE 689)

cause of reaching the objective, it becomes important to establish the third phase—the development and injection of a control mechanism for the measurement of results and deviations from predetermined plans.

Under ordinary circumstances, three different major control points are installed, of which the first two are:

1. *Control of Financial Position.* The chief function of this is to see that the financial program is adhered to, protecting the assets of the bank against depreciation of principal and subnormal rates of income.

In our practice the head of this function is termed "controller of loans and financial position." It is a function far greater in scope than a so-called credit department and hence should not be confused with such.

2. *Control of Operations.* This function is to analyze the nature of the business developed from a standpoint of profit, to analyze and control the expenses incurred in handling the business, to devise methods and means for making more profitable the business handled, and to reduce operating expenses.

The scope of these is far beyond pure control. They are developed into central scientific research divisions and thus become the "laboratories" in the bank for constant improvements. Through the creation of these functions, therefore, scientific research becomes an integral part of the banking process; it becomes a continuous performance in the same manner that the receiving of deposits and the making of loans are continuous performances of the banking process.

The third point of control is one which is fairly well developed in our larger banks, and that is the function of verification, commonly termed "audit" which involves independent check of transactions, the constant inventorying of assets and the accuracy of statements of liabilities.

These control functions keep the chief executive constantly informed, not as a matter of opinion, but as a matter of fact, as to the position of the bank and as to progress made. Results are precisely measured. With a clear-cut organization plan before him, the chief executive will then know definitely just who is responsible for results and for failures, without the losses of delay.

The Steps in Reorganizing Closed Banks

(CONTINUED FROM PAGE 679)

signed by 95 per cent in deposit representation. No information has been received as to the treatment given to the non-consenting depositors.

In a case in Arkansas where 85 per cent signed, a decision of the chancery court made the agreement unanimous. Such procedure seems possible only when authorized by statute. In the absence of statute it is quite likely that the dissenting depositor will be given full protection of the law notwithstanding the unpopularity of his claim. The moratorium agreements always give the right of way to public deposits, school funds and the like which are withdrawable at any time. In some cases interest is paid on the deferred deposits.

NORTH DAKOTA'S PLAN

THESE examples indicate the many ramifications of the subject. They are of a general nature and are presented with the thought that a banker interested might be aided in studying a specific plan to fit an actual case. It may be helpful also to present summaries of a few of the plans approved by the banking departments, which are now being operated with apparent success by banks having the confidence of their communities.

The following is a synopsis of the standard form approved by the banking authorities of North Dakota in accordance with the provisions of its reorganization statute:

> A North Dakota bank is allowed to re-open in a solvent condition with unimpaired capital and surplus under an agreement subscribed to by depositors and creditors representing 80 per cent of the amount of deposits exclusive of public funds. Each subscriber agrees to accept a reduction of 50 per cent of his deposit, representing an equal amount in face value of the bank's slow and doubtful assets, to be placed in trust for his benefit awaiting liquidation in an orderly manner.
>
> The remaining 50 per cent representing deposits subject to check and outstanding certificates of deposit are converted into certificates yielding 4 per cent annual interest, to be paid in accordance with the following percentages and maturities: 10 per cent in one year, 10 per cent in two years, 20 per cent in three years, 30 per cent in four years, and the remaining 30 per cent in five years from the date of re-opening. If upon maturity of the certificates, liquidation upon the assets of the bank is insufficient to meet payments, the bank shall have the option of making a pro-rata payment and to extend automatically maturities for a period not exceeding one year.
>
> There is no assessment on stock or subscription to additional capital. Subscribers request that the super-added liability of stockholders be waived. Holders of deferred certificates may exchange the same in lieu of cash for certificates of stock in the reorganized bank upon approval of the reorganization committee.

A reorganization agreement prepared and sponsored by the state banking department of Michigan provides that the assets of the bank shall be shrunk to within the bounds of safety in order that new deposits coming into the institution may be fully protected. Any salvage realized through liquidation of the trusteed portion of the bank's assets will be distributed to depositors entitled to participate in such distribution at the end of the moratorium period. The department states that this plan is being enthusiastically received in the communities where reorganizations are being attempted and a reorganization of quite a number of closed banks on this plan is anticipated. Here is a summary of its main features:

> An assessment of 100 per cent on the capital stock is required. The depositor agrees to waive his present claim against a certain percentage (amount fixed according to condition of the individual bank) of his deposit which shall be allocated to a trust fund for the purpose of liquidating any assets which may be considered questionable or undesirable. Deposits placed in trust fund shall not draw interest. The remaining proportion of the deposit not allocated to be available for withdrawal at a fixed percentage over a period of five years. The same not to draw interest for a period of two years after date of reorganization.

ASSET SUBSTITUTION

IF any assets remaining in bank as active assets become doubtful or undesirable, the bank may with the approval of the state bank commissioner substitute assets of equal amount from the trust fund. Trust fund to be credited with earnings and chargeable with losses sustained by bank. Moratorium agreement subject to termination prior to its expiration. Depositor who is stockholder may set off his deposit against the assessment. Depositor entitled to draw not in excess of $10 at time of re-opening. Three depositors permitted to act with directors on loan committee. All assets of value too uncertain to be included as assets of reorganized bank shall be transferred to trust fund with understanding that they are to be liquidated as rapidly as possible without too great sacrifice.

Trust fund shall be closed after expiration of five years upon distribution of earnings. School savings funds may be drawn at any time. Certificates of deposit shall be surrendered and contract of deposit altered to conform to agreement. Agreement void unless signed by depositors representing 95 per cent of deposits.

A plan approved by the banking authorities in North Carolina provides for an agreement by the depositor to postpone payment of his entire deposit without interest until the expiration of two years provided the bank shall pay earnings as the assets are collected to the extent of 10 per cent of his deposit. Loans from such collections not exceeding 10 per cent of deposits prior to closing may be (CONTINUED ON PAGE 730)

The solution for reorganization in any case depends entirely upon the conditions under which the individual bank was closed, and its ability to liquidate its assets within a reasonable time or to obtain sufficient capital and backing to take care of its depositors during the period of the depression. Reorganization is only workable in those cases where the bank was forced to close in the face of a run or is in a solvent position if given two or three years or even longer to work itself out.

We've Never Seen

A CRACKER BARREL IN A BANK

As far as we can find out, no banker has yet opened up a barrel of crackers, and invited the boys in to help settle the tariff question. The banks we know are too busily engaged in the business of banking during banking hours for that sort of amiability—and nobody expects it of them.

But in our business, we have a tradition. Grocery stores a generation ago were meeting places where the village gently nibbled at crackers, cut plug, and politics. And today the open cracker barrel is spoken of with moist eyes—as if its passing were the passing of friendly service from grocers.

As much as we envy the simple, leisurely life of our grandfathers, we must say that we think we are giving a more friendly service to our customers than it was possible for a grocer to give 75 years ago. Of course the population of the country has increased too much for us to make a social event of a food sale.

But we are selling better food and a far wider variety of food than any of the old timers ever did.

And what is more important, we are selling the best food at prices that the masses, as well as the classes, can afford.

We think the friendly grocer is the one who gives his customers the most for their money.

The Great **ATLANTIC & PACIFIC** *Tea Company*

The Condition of BUSINESS

POLITICAL activities at Washington continued during April to be a major influence in the condition of business. Unlike the thoroughly constructive effects of the period of nonpartisan cooperation that brought forth the Reconstruction Finance Corporation and the Glass-Steagall Act, the news from Washington up until the middle of April tended to cause concern. Radical legislation aimed at banking, a period of apparent chaos in the House in respect to tax legislation and a sound fiscal program and a seemingly abrupt termination of the spirit of legislative and administrative cooperation in plans to conquer the depression, gained possibly an exaggerated emphasis that threatened to undo much of the good that had been done.

Nevertheless by the middle of the month there was cumulative evidence that developments from this quarter were probably not so serious as they had seemed. For one thing it appeared probable that greater moderation and deliberation would prevail in respect to banking legislation and that the final outcome would not be so undesirable as feared. For another thing, at least one sound principle seemed to have become established in respect to Government finances, and that was that a measure would finally be agreed upon in Congress to assure a balanced Federal budget. Again, fiscal cooperation between Congress and the Administration became operative again in connection with plans to bring about substantial Government operating economies as an aid to balancing the budget.

RECONSTRUCTION REPORT

DURING this first half of April also some fruits of the earlier financial relief measures became apparent. The first quarterly report of the Reconstruction Finance Corporation indicated the helpful operations of that organization. This report covered its operations from February 2 to March 31, comprising a period of but two months. During this brief time, the Board of Directors of the corporation had set up its central organization in Washington and established 33 separate agencies in various sections of the country. In order to expedite its work, active loaning operations of the Corporation were started while it was in the process of building up its executive and administrative staffs.

The report showed that at the close of business on March 31, the corporation had authorized 974 separate loans aggregating $238,739,939 to 935 institutions, as follows: $158,182,242 to 858 banks and trust companies, including $2,173,000 to aid in the reorganization or liquidation of seven closed banks; $4,879,750 to 30 building and loan associations; $7,080,000 to 18 insurance companies; $775,000 to two joint stock land banks; $496,990 to one livestock credit corporation; $21,200 to two agricultural credit corporations; $6,517,000 to eight mortgage loan companies, and $60,787,757 to 16 railroads, including $7,335,800 to two railroad receivers. In addition, the corporation had outstanding agreements to make loans totalling $6,817,500 upon the performance of specified conditions. The corporation had allocated $50,000,000 to the Secretary of Agriculture in accordance with the provisions of the Act creating it and had underwritten two issues of Federal Intermediate Credit Bank debentures aggregating $47,345,000, but as they were successfully distributed in the open market it was unnecessary for it to take any part of these issues. It was also shown that of the total loans authorized by the Corporation it had advanced $192,346,308, and repayments amounting to $7,471,894 had already been received.

FEWER BANK FAILURES

CONTINUED improvement in the rate of bank failures was evident during the period covered by this review. To go back a bit, in January of this year suspensions numbered 342, with deposits of $225,000,000; in February, the first month of the Corporation's activity, they dropped to 115 with deposits of but $60,000,000, and in March there were only 45 closings reported, unofficially, with deposits under $16,000,000. Equally favorable returns were running for the early part of April.

An auspicious circumstance was seen in the fact that these results were being obtained without dependence upon that other major relief measure, the Glass-Steagall Act, permitting member banks under certain conditions to borrow if necessary from the Federal Reserve Banks on paper not otherwise eligible. It was stated in mid-April that up to that time almost no loans under this measure had been found necessary, although some banks were making inquiries. It would appear, therefore, that it was serving its purpose of backing up the banking situation chiefly by virtue of its availability as an aid in case of need rather than by actual recourse to it. This was an index of improved morale and confidence in banking, and of increased ability among banks to go along on their own, when it is recalled that at the time of the passage of this Act it was felt that the immediate application of its powers on a wide scale might be imperative.

In connection with the continuing failure noted during the month of the hoped-for increased activity in general industry and trade to make an appearance, fault-finding in some quarters attempted to place a measure of blame on so called over-cautious policies of bankers generally in respect to the extension of credit to commercial borrowers. The basis of this complaint was apparently the purely inflationary attitude that all that is necessary to generate business energy is to create credit.

REASONS FOR CAUTION

PRACTICAL bankers, however, know that the prerequisite to sound credit is a sound business proposition giving all reasonable assurance that the manufacturer or distributor who undertakes to turn over a given volume of goods will be able to dispose of them to the public at a profit. The present wide-spread lack of willingness or ability on the part of the public to make purchases is a matter of comment in many lines of trade, and this necessarily curtails the volume of propositions coming forward that warrant extensions of bank credit. For bankers to pursue any other policy than one of full prudence in this connection would merely be to increase the already existing over-supply of frozen credits and of banks in difficulties needing the assistance of the Government's reconstruction facilities.

It can be unequivocally stated that bankers as (CONTINUED ON PAGE 725)

Washington Looks at the State Banks

(CONTINUED FROM PAGE 678)

cussion of the significance of this development of commercial banking resources under the control of state institutions is contained in the Reports of the Comptroller of the Currency from 1924 to 1930, during which time the attention of Congress has been directed repeatedly to the steady loss of control by the Federal Government over the operations of commercial banking, a field of banking falling peculiarly under the jurisdiction of Congress by reason of the fact that practically all commercial banking relates itself to transactions in commerce between the states."

Previously, in the report of 1929 and repeated in his testimony before the House Committee two years ago, Comptroller Pole said:

"The theory of parity between the two systems is, in my opinion, economically unsound. Commerce is interstate and is recognized by the Constitution of the United States as being fundamentally a national question. One of the primary purposes of the national bank act of 1863 was to establish a sound and uniform system of commercial banking throughout the country in order that the commercial transactions growing out of the production, the manufacture and the transportation of goods and commodities from one section of the country to another might not be hampered by local banking legislation but should have access to a system of banks operating under Federal authority and supervision under a single set of rules and regulations and statutory enactments in order that the free flow of commerce should not be embarrassed by a multiplicity of restrictions having their origin in local political conditions."

In short, the theory of the Comptroller's office is that banking in the nation, as an essential feature of interstate commerce, is entirely under the control of Congress under the interstate commerce provisions of the Constitution.

STATE BANK OPPOSITION

IN opposition to this view and to any pretense on the part of Congress to exclusive jurisdiction is the resolution adopted by the State Bank Division of the American Bankers Association at Cleveland, Ohio, September 29, 1930, and accompanying this article. Also in opposition can be cited the opinions and activities of the banking departments of 48 states as well as the opposition taken by perhaps nine-tenths of the 13,000 banks in the country operating under state charters. This opposition is both legal and political. From the legal standpoint it is urged that there is nothing in the Constitution which gives Congress any exclusive power over banks or commerce generally and therefore the right to charter and control banks is reserved to the states. Political opposition is based upon the unwillingness of states to concede further centralized power to the Federal Government.

THE COUNCIL'S OBJECTION

THERE is a feeling among most state bankers that the elaboration of an exclusively national system of banking would tend to concentrate the control of national credit in a few centers and a few men with dangerous possibilities to the country as a whole. This objection to too much centralization of the control of credit is, curiously enough, voiced by the Federal Advisory Council

The question raised in Washington and described in this article is one on which every banker in the country has an opinion. Write the Journal what you think.

of the Federal Reserve System in its comments upon the new Glass bill submitted to the Senate committee at the time Governor Meyer made his statement. In the review of the bill prepared for the committee the Council states:

"It was the original intention of the Federal Reserve Act to decentralize the banking power in this country by establishing twelve autonomous regional Federal Reserve banks. The Federal Reserve Board itself was planned originally to be largely a supervising and coordinating body. The proposed act, however, * tends to increase radically the power of the Federal Reserve Board at the expense of the individual Federal Reserve banks and to make of the Federal Reserve System in effect a centralized banking institution."

The Council particularly cites Section 3 of the proposed act as delegating the power of direct action to the Reserve Board which "even if practical, would result in so embarrassing the operations of member banks as to lead to the elimination of important and necessary activities or to the virtual surrender of individual bank management to the Federal Reserve Board."

The proponents of state banking defend their system as the original banking system in the United States. They consider it as more in keeping with the spirit of American institutions as an example of wholesome local autonomy in local affairs. They believe that it avoids the danger of the concentration of credit control in a few hands, thus preserving local credit for local uses. They assert that Congress has no power to prevent the government of a state from chartering banks or any other legitimate institutions within the borders of the commonwealth and that when an institution is thus chartered it has the constitutional right to do such business in all the states as may be incidental to its proper functioning at home.

In short, the Senate committee has precipitated an issue which promises to stir banking circles in the United States in a way they have not been stirred for a hundred years. It involves more than mere bank charters or mere regulations of bank practice. Aside from the political and legal questions involved it goes to the very foundation of credit and credit control in the country and becomes a matter of basic policy in the theory of government. The issue is in many respects the old issue of a National Bank for the nation fought for by Alexander Hamilton and his supporters and finally done away with by Andrew Jackson and his supporters in the South and West a century ago. The tremendous development of the United States in the past hundred years has introduced new complications in the question, new phases to the problems, new factors to be considered.

THE QUESTION IS THE SAME

CONDITIONS have changed materially from those obtaining a hundred years ago but essentially the question is the same,—whether the banking and related finances of the nation are to be left to the states or are to be concentrated in one large national organization of standardized units. It is upon the determination of this question, as indicated in the Senate committee hearings, that the settlement of many questions now vexing American banking and the banking authorities of the country will depend.

* a compromise with the times.

Office in LA JOLLA
Population—3,850

Directorships and Shaping of Business Policies

(CONTINUED FROM PAGE 685)

Company of New York.

Well up on the list in this survey is a bank in lower Wall Street, with a total of 52 directors of whom 20 are affiliated not only with the trust and other activities of the bank but also with other corporations of various kinds.

Turning to other important centers in various sections of the country we find identical conditions relating to the activities of bankers in the production and distribution of goods.

On the Atlantic Seaboard, for example, well up in the New England territory, the president of a large bank holds a total of 40 directorships, of which 12 are related more or less directly to the business of the bank. Among the 28 industrials which he serves as an active director are five of the "big names" in the manufacturing and utility fields. The chairman of the same bank, in addition to ten posts on local banking and insurance boards, holds directorships in one each of prominent local utility, textile, shoe manufacturing, merchandising and mining corporations.

To a considerable extent the activities of bankers outside their own offices are governed by the types of industries in their territories. Thus in Philadelphia we find the president of a large bank on the boards of eight insurance companies, three manufacturing corporations and one railroad. A Baltimore banker holds 17 directorships in local and national enterprises, including three real estate concerns, a railroad, a utility and an iron foundry.

In another Pennsylvania city, the head of the largest local banking institution, who has been signally successful in extending the bank's services in an ever-widening territory, is on the boards of 35 corporations, including the Pennsylvania Railroad, United Gas Improvement Company, Aluminum Company of America, Crucible Steel, Gulf Oil, etc. Another officer of the same bank devotes a considerable portion of his time as a "working director" of four insurance companies, two local utilities, one railroad, one steel and one electrical manufacturing company.

The list might be extended indefinitely. In St. Louis, for example, the president and chairman of a leading bank hold a total of 27 directorships, of

which 15 are devoted to St. Louis industries and include three local utilities, one railroad and one major oil distributing company.

On the Pacific Coast the two senior officers of one of the oldest banks fill a total of 23 directorships, including five local building companies, one shipping concern, two utilities, one steel and one lumber company.

In Cleveland, prominent direction is given to the financial position of two national railroad lines, two motor car companies, four local realty companies, two manufacturing companies, and one rubber and one foodstuffs distributor by the senior officials of a large bank serving as members of the boards of those corporations.

And now let us look at another side of the picture. Note this classification of the directors of the twelve largest banks in New York City:

Bank executives and affiliates	134
Non-bankers, industrialists, etc.	185
Total	319

And the classification of the non-banking directors:

Manufacturers	35
Railway and express officials	20
Utility executives	19
Insurance	17
Merchandising	15
Lawyers	12
Real Estate experts	11
Copper Industry	10
Oil	7
Automobile	4
Steel	6
Shipping	4
Coal	3
Paper	3
Sugar	3
Radio	2
Publishing	2
Stock Brokerage	2
Amusement, chemical, lumber, rubber, tobacco, carpet, baking, foodstuffs, traction, engineering, 1 each	10
	185

Of the 319 directors of the twelve largest banking institutions in New York, about 42 per cent are drawn directly from the ranks of the bankers and 58 per cent are recruited from business and trade circles.

The largest group is from the field of miscellaneous manufacturing, with an enrollment of 35. There are 20 railway and express company officials in the list, all men of prominence in transportation. Public utility companies contribute 19 directors, the insurance companies 17, large merchandising concerns 15, the real estate business 11, the copper industry 10, and the oil industry seven. Twelve lawyers are on the boards of these institutions, an average of one lawyer to each bank board.

Thanks to the Depression

By HIRAM MERRIMAN

New Inventions and Old Ones Improved

THAT necessity is the mother of invention still holds true. During the past two or three years of depression inventors and scientists in our industrial laboratories have made ready for commercial use a great number of new inventions and improvements over the old. As business recovery gets further under way, these new things of science will reveal their importance unmistakably. And in some instances they may even enlarge the range of industries.

What they are and how they are being utilized commercially provide interesting reading. The information too may be helpful for customers when plants, products or markets are being overhauled for improvement. The following, in digest form, are a few of these developments as reported in various technical journals:

BRICK manufacturers are making a harder brick that will hold together better. The result is that bricks for steel furnace linings can now be made three inches wide instead of two and one-half inches. This means that 20 per cent more wall area can be laid per mason hour.

THE search for a lighter-weight bathtub does not mean much to the average bather, but it means a great deal in freight and handling costs to bathtub manufacturers. A bathtub now being developed, made of steel instead of cast-iron, will cut the cost of bathing.

INDIRECT lighting is cheaper today because of the development of varying heat treatment to upper and lower parts of the electric globe, in forming it, whereby the lower part is translucent and the upper part is entirely transparent. The subsequent frosting process is eliminated.

A COSTLY and time-wasting process in concrete building construction—the use of wooden forms to hold the concrete until it hardens—was eliminated in a Chicago office building through the use of gypsum units permanently imbedded in the floor, into which the liquid concrete was poured. Describing the process, the publication Concrete states that a crew of 12 men and one foreman hoisted the gypsum units from the street and placed 4,800 square feet of floor in an eight-hour day. This means an average saving in cost of concrete construction of not less than 10 per cent.

THE photo-electric cell enables completely automatic operation of concrete-mixing machines. The first machine of its kind, now in operation in Brooklyn, N. Y., accomplishes the complete operation through the pushing of one button. Sand, concrete, and water pours into a huge bin placed on a scale. When the scale is depressed until the desired weight of material is reached, the floor of the scale obstructs the beam of light thrown by the unwinking eye of the photo-electric cell, the flow of material stops, and the mixing machinery starts in operation. Another electrical device stops the mechanism and dumps the concrete after a pre-determined period of time, and materials for the next batch begin to pour into the hopper.

THE steam plant now being built by the General Electric Company at Schenectady, N. Y., says the Architectural Record, is the first in which the machinery is installed in the open air, not enclosed by the protecting walls and roof of a building. Since the building cost is 25 per cent of the total, the large saving is apparent.

ONE steel mill during 1931, states the magazine Steel, succeeded in cold-rolling steel strips 6 feet in width, the largest size ever attained in the form of strip or by the continuous method. Another development of 1931 was a new

automatic machine which develops coils for continuous cold mill operation. The final product is delivered with no manual operation other than the use of control buttons.

THE glass-lined refrigerator car, used first for transportation of milk, has pointed the way to a new use and economy.

Glass-lined cars led the way to aluminum manufacturers, and aluminum tank cars are successfully transporting glacial acetic acid, acetic anhydride, glycerine, concentrated hydrogen peroxide and a hundred other chemical products which are the necessary essence of some commonplace utility bought by the million at the 10-cent store. These necessary chemicals are transported without danger of spoilage, and more cheaply than ever before.

Chemical and Metallurgical Engineering describes a new nickel-lined tank car, which for one manufacturer alone saves $400,000 a year in the transportation of 50,000 tons of caustic soda used in the manufacture of rayon. The nickel lining eliminates iron contamination.

LEATHER is costly material. For many years extensive efforts were made to find some use for the small pieces left after the sheets had been cut into shape for shoes, belts, etc. And as there was no satisfactory way to use the "scrap," often it was simply thrown into furnaces and burned. Now the scrap is shredded and is finding its proper place in the industrial scheme of things in the form of a highly efficient wall-board, because of its sound-absorbing qualities and because it is a low-temperature insulant.

A MACHINE has been developed which will dig ditches faster than a man can walk, according to Construction Methods. The ditcher is operated by a tractor and travels along digging ditches at 16 feet per minute, or up to six miles an hour. At this speed a ditch is dug 12 inches wide and four feet, six inches deep.

RIVETS in boiler factories and in other plants where they are needed in large quantities are now heated electrically, reports Electrical World. The heating machine looks like an over-sized electric toaster, and works on the same principle. The rivets are fed into the machine, a valve pops open after a minute has passed, and out come the rivets. All are heated to the same temperature. By the hand-process some rivets are

burnt and some are under-done. A Muncie, Indiana, factory has a battery of nine rivet-toasters in continuous operation, an interesting example of machine-judgment value triumphing over eye-judgment value.

FARMERS are saving money through the inventive genius that hard times produce. One of the new hard steel alloys is now made into facings for plows, and welded to the old share by the same new process which is making possible the cross-country transmission of natural gas by 1,000-mile pipe-lines. The cost, with ordinary steel shares, for plowing a 280-acre farm approximates $190, or 70 cents an acre. The cost for an equal test-area, using the hard-faced plowshares, was $73, a saving of $120 on one farm alone. This was reported in the Welding Engineer.

A QUICK-SETTING vegetable glue developed during the past two years helps to speed up furniture manufacture. The strength of this new glue is 1,000 pounds per square inch. One operation—application of hot cauls—is eliminated by the vegetable glue, in certain types of furniture manufacturing, such as veneer work. This means a saving of $3 on each piano or set of six dining room chairs.

SEEN at the Packaging Exposition, Chicago: A molded fiber case fitting closely to bottled goods saves space formerly needed for packing materials. Each bottle is enclosed in a non-breakable case, shaped so that tiers of bottles can be fitted into one another. Two dozen bottles can be packed in the same size container that formerly held a dozen.

Shirts, collars and other dry-goods are wrapped in transparent cellulose—not as a fad to attract novelty-loving buyers. The covering reduces by 25 per cent the number of garments that are soiled from handling and that must be disposed of at the bargain counter.

WELDING, the new knowledge of metals, and other practical applications of older theoretical knowledge have made possible the early completion of the 1,000-mile natural gas main from the Texas fields to Chicago. The American Gas Journal reports that 25,000 men were employed for 18 months to construct the main, costing $75,000,000. It was financed entirely by seven gas companies, without calling on outside capital. More than 175,000,000 cubic feet of gas a day can be transported through the two-foot pipe, at a pressure of 600 feet per square inch.

Employment Stabilization Trusts

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reserves, use of funds for other purposes, and failure to segregate funds, then certainly three steps in the right direction will be (1) to set up and maintain reserves, (2) to hold these funds inviolably for unemployment benefits, and (3) to segregate these funds from all others. In order to accomplish these improvements, it seems advisable, theoretically at least, to introduce the element of trusteeship, and so it has proved in practice.

One conspicuous example is that of the Zeiss Works at Jena, Germany. The Zeiss Works has had its own unemployment insurance since 1891. When Germany passed its first national unemployment insurance law in 1927, it provided that any firm having had for at least one year previous to October 1, 1927, a financially satisfactory system of unemployment insurance might be exempt from the requirements of the law. The Zeiss firm alone qualified. "Control of the fund is vested in trustees and despite the vicissitudes of German economic life it is still intact." (Bryce M. Stewart, *supra.*)

Under at least four of the 16 joint-agreement plans the administration of the funds is in the hands of a board of trustees. In three of the 15 private-company plans the management of the funds is in the hands of trust institutions.

Under these employment stabilization trusts, the company trustees an amount equivalent to twice the company's maximum weekly payroll. Thereafter, the trustee invests the fund in liquid securities that may be promptly converted into cash. In a time of unemployment, the company instructs the trustee as to what distributions should be made. When the fund, thus drawn upon, falls below twice the maximum weekly payroll, the company begins contributing 2 per cent of its weekly payroll and continues until the level is re-established. In this way the fund is automatically replenished.

Experience teaches that trusteeing these employment stabilization funds, whether under joint agreement or trade union or private company plans, gives greater assurance of success. Under the plan recommended by the Interstate Commission on Unemployment Insurance, would it not seem preferable to have each company trustee its fund with a trust institution under the supervision of the state banking department rather than to have the state itself as the custodian, investor, and disbursing agent of the fund?

Country Banks Can Be Profitable

(CONTINUED FROM PAGE 699)

to get the commercial banks back into commercial banking. This is not true of metropolitan banks. They remain commercial banks. They are highly liquid. But there is no doubt that too many banks as a whole are trying to be commercial banks in the face of the drying up of commercial banking business. It is stated that commercial loans comprised about 56 per cent of total loans and investments in banks in 1920, about 46 per cent in 1929, and about 36 per cent in 1931.

If present tendencies and practices in industry and finance continue, there must come soon an examination as to whether many banks which formerly had greater volume in demand deposits but now have greater volume in time deposits, shall not consider themselves savings banks and organize on that basis, irrespective of the type of charter under which they are organized.

Regardless, then, of what legislation may be enacted by Congress or by state legislatures covering the granting of credit by banks, attention must be given ultimately to the number of financial institutions of all kinds in a given area and the types of their business.

The Condition of Business

(CONTINUED FROM PAGE 717)

a whole, wherever the conditions permit, are extending to their customers the full measure of credit cooperation that the facts of each individual case presented to their consideration justify. Although the unsatisfactory condition of business is a public problem, the banker individually is still the custodian of private funds and must employ them with their specific safety as the primary object, rather than for the purpose, however laudable theoretically, of bringing about economic improvement. His surest way for bringing about economic improvement, in fact, is so obviously a policy of cooperating only with prudent undertakings, and in preventing untimely or ill-considered transactions from adding further weaknesses to the situation so far as he is able, that criticisms of current banking caution refute themselves.

The Tax Bill Fight to Balance the Budget

(CONTINUED FROM PAGE 681)

Professional "friends of the people" concentrated the opposition on the sales tax. They said it would invade the poor man's subsistence—a specious argument that was distorted beyond all reason—and started a backfire against it. Along with the criticism came advice. Most of it urged that the rich—even though they have well-nigh vanished from the range of the Treasury's telescope within the past two years—be made to foot the bill.

Cutting across the barrage were hard-driving sectional demands. To the New Yorker, the taxing of automobiles was bad enough, but even to think of boosting the tax on stock transfers was sheer heresy. And the Michigan constituent, while acquiescing in the possibility of "soaking Wall Street," just dared any congressman to lay profane hands on the automobile business.

And so it went. The events of the three ripping, tearing, slashing sessions of the House at which the leaders lost control and the budding tax bill was mangled beyond recognition are well known history. Impracticable amendments to the surtax and estate tax rates were voted. The sales tax was snowed under.

That was March 24. In history it may become a significant date, marking the time when the money affairs of the Federal Government ceased to be the exclusive concern of finance experts and became a personal reality in the life and thinking of the man in the street. Viewed with unfeigned alarm at the time, the refusal of the House to vote the sales tax perhaps contributed more than anything else since the World War to encourage straight thinking—and to deflate specious political pap—concerning the finances of the United States Government and their intimate, delicate relationship to the affairs of the people.

For out of the anxiety which developed before the bill was revamped came one of those inexplicable events which permit a democracy—despite its excrescences and the interminable posing of leaders of the demagogue type—to be a practicable form of government. Reason returned. The country seemed to sense the seriousness of the wreck which the boisterous clamor against the sales tax had wrought. The flush of exultation over avoiding a tax gave way to fear of the consequences of jeopardizing the result which that tax was needed to achieve. That fear, fed by tempestuous repercussions in the world's financial markets, drove home the realization that "balance the budget" was more than a technical phrase. It brought an instant of clear recognition of the fact that balancing a billion-dollar deficit was no child's play and could not be accomplished without some sacrifice by every element in the population.

Mindful for the first time of the implications of an unbalanced budget, many of the theretofore obstructive forces moderated their attitudes at least temporarily. In that clearer atmosphere the House Ways and Means Committee repaired the damage. To replace the sales tax, it devised a wide range of miscellaneous taxes, postal rate increases, administrative changes and proposed economies. Not only were these accepted but in the final vote the House reversed most of its previous "soak the rich" decisions. It passed on to the Senate a bill which—whatever else may be said of it, and there is much—laid a basis for balancing the budget. It provided new revenues estimated at $1,062,900,000—one-fourth in increased income and estate taxes, one-eighth from postal rate increases, and the re-

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After the Moratorium, What?

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which the coming conference at Lausanne might offer, but this probably has more foundation in logic or inference than in fact. The truth is that, whatever ideas on the subject may be lingering in the back of the minds of the Federal authorities all recognize the fact that under present financial conditions in the United States the American people would not countenance any change in the debt situation which was forced upon them and they would resent and resist any forcing process.

Undoubtedly the position of Congress and the Administration in the matter is political rather than economic, but it is political without being partisan. The position assumed is the position of both parties, and it is based upon a wholesome regard for the feelings of the American people as they will be expressed at the oncoming elections. The position is economic in that, under changed financial conditions in the United States and with the increasing deficit in the budget, the people of the United States have come to feel the pinch in the increased taxes which the deferment of debt payments has entailed and which debt cancellation would continue indefinitely. Naturally it is rather difficult for American taxpayers to understand why all this sacrifice should be made by the United States. Why not France, with its tremendous increase in wealth since the war? Why not Great Britain with its notable colonial expansion resulting from the war?

In spite of world assumptions to the contrary, the question of inter-governmental debts is not one between the United States and Germany. Legally and morally the debts are due from Great Britain, France and other allies to the United States. That payment to the United States must come from German reparations payment is an arbitrary assumption on the part of the debtor powers for which there is no ground in law or equity. Nevertheless, in the back of the minds of most people is a realization that, after all, the question is one of expediency rather than one of legal or moral obligations.

THE POLITICAL ANGLES

IF the position of the Government in Washington is based on politics, so also is the position of the other powers, particularly France. Great Britain is interested in debt cancellation only with reference to its general effect upon world business. The government in London, under the Young plan, receives a trifle more from Germany and France than it pays the United States. France, however, receives more from Germany than it pays its creditors. Cancellation would mean a direct sacrifice. Hence the French attitude is that of uncompromising insistence upon the fulfillment of the Young plan. No French government would dare to meet the French tax payer and voter on any other basis, and the French government faces its electorate on the first of May.

Face to face with the intransigeant attitude of France and the United States is the great outstanding fact that, whatever may be the faults of Germany and of the German people in the premises, Germany cannot for the present—and in the future will not—pay its foreign obligations if the latter include any material reparations indemnities. That fact might as well be realized now as after more years of financial uncertainty and economic distress. Whatever may be the causes of recurring German bankruptcy —German extravagance, high interest

rates paid to German creditors within as well as without the country, German resentment against its position following the war, German this and German that—the fact remains that back of it all is the economic position of Germany entailed by reparations payments, present or possible. Whether the German people cannot or merely will not carry that incubus, the results are the same.

Since the attitude of the Government in Washington is that the debts due the United States are not German debts but debts due from France, Great Britain, and other Allied powers, it is evident that any possibility of readjustment must come through an agreement between France, Great Britain and other European debtors among themselves as to what they can and will do, as a preliminary to any subsequent negotiations with the Government in Washington. Hence the Lausanne conference in June, and also the preliminary negotiations between France, Great Britain, Italy, and Germany which are essential if an agreement at Lausanne is to be possible.

TO AGREE, BUT NOT COMBINE?

WHAT will follow any agreement among the powers assembled at Lausanne, which involves a scaling down or cancellation of the debts, remains to be seen. The Administration in Washington has already given notice that it will view with high disfavor any combination among the debtor nations tending toward united action in that direction. The idea seems to be that the powers can agree but not combine, although doubtless a combination to pay the debts would be accepted with considerable alacrity.

There are abundant reasons why the American people are not ready to rush into debt cancellation or even debt modification, however necessary they may appear for world recovery at the present time. Somewhere between the intransigeance of Congress and perhaps a majority of the American people on the one hand and the convictions of world financial experts on the other, there ought to be some middle course which will afford adequate relief to world finances while at the same time protecting the legitimate interests of the American people.

FEDERAL FISCAL PROBLEMS

THE results of a special investigation of the complex financial problems confronting the U. S. Treasury Department, conducted recently by the research staff of the National Industrial Conference Board are now available too in monograph form under the title "The Federal Fiscal Emergency."

There are some who see in the recent Treasury estimates of a cumulative deficit, evidence of the straits into which Governmental extravagance can lead a people. But a glance at the facts, as shown in this study, dispels any such illusion. In the fiscal year ended June 30, 1931, when the deficit already approached $1,000,000,000, the expenditures of the Government exceeded those of the preceding year by 5.7 per cent while the ordinary receipts of the Government fell short of those of the preceding year by 20.6 per cent.

It was straitened income rather than excessive expenditure that brought the Government into the present difficulties. The business depression affected alike expenditures and receipts, it cut down our imports and brought a marked reduction in customs revenues, it made deep cuts in the income both of corporations and of individuals and in consequence the receipts from income taxes fell off $551,000,000 in the year ended June 30, 1931. Increased taxation is the only remedy, as the survey reveals.

About An Old Bank

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transcripts from the town printing office. It was always an interesting hazard to open the door of this closet because some book or paper was bound to fall out and start an avalanche of the other contents.

To return to the table, it should be mentioned that on it stood an early model of an electric toaster. Its flat surface upheld the dignity of a rather battered but efficient tea kettle. Both were used on stormy winter days for a noontime lunch of bouillon cubes and bread and butter sandwiches, because Dobbin and the sleigh did not come until afternoon on winter days to take the clerk home through the high-piled drifts.

In that era Mousseline the Mouse thrived on crumbs from this banquet of the solitary clerk, even venturing forth during the meal, so eager was she for the tid-bits. Her large and elegant ears quivered with excitement as she propelled her tiny body across the floor, whisking out of sight in a flash at a sign of recognition from her fellow diner.

But the thing of greatest importance about this room was not in the room at all. It was outside, near the window that looked out over the planing mill and across the river to the east hills. This object was the grandfather elm tree, and in summer it was the cool shade his majestic bulk afforded and the welcome breeze that his million little leaves sent in through the window that made this back room such a haven.

One of the last of the old banks of New Hampshire. Now we are downstairs, far from the Olympic heights and gods of earlier days. We have mahogany furniture and plate glass, but Mousseline is gone and, so too, are the geraniums. But we still have the grandfather elm.

The Banker and the Motor Car Dealer

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duction of the past two years and more and the steadily increasing replacement needs are the increasingly hopeful signs for the future in this major industry.

General business recovery depends in large measure upon the motor car industry, and the peculiar conditions of the year emphasize the importance of local dealer organizations in 1932 and of local banking and financial help for these retailers. Consider, for example, that of the gainfully employed throughout the country, one worker in 10—or more than 4,000,000 in all in a normal year—is dependent on the industry for a livelihood, that automotive plants are located in 41 states with widespread distribution of employment in more normal times, that all states contribute raw material to motor car manufacture, and that the steel, rubber, petroleum and other basic industries are largely dependent on motor production.

Nearly two-thirds of all new motor cars are bought by persons with incomes below $3,000 annually, and more cars are purchased by those with incomes under $1,400 than by those having incomes of over $6,500. Also, 85.7 per cent of all cars sell under $750 wholesale. Farmers own 26 per cent of the trucks and 18 per cent of the passenger cars, and 57 per cent of the 26,000,000 motor vehicles in use last year were on farms or in towns with population under 10,000.

And, according to a recent computation, motor vehicles in 1931 paid nearly 10 per cent of all government taxes—Federal, state and local—or a total of $1,030,000,000. This was equivalent to practically one-fourth of the total expenditures by the Federal government alone last year. And with increased taxes, 1932 figures will be even greater.

A Health Plan for the Well-Managed Banker

(CONTINUED FROM PAGE 694)

and sex. It cannot all be told in a few hundred words.

There are a few general rules which apply to almost everyone and are always wrong for a few. Life is an individual matter.

Few, if any, can prosper on a strictly vegetable diet; an exclusively animal food diet is much less dangerous and fits the needs of a few persons to perfection. One's instinct, though it goes sadly astray in some cases, is better than any fad; there is a best diet for everyone that should be ascertained; it should become habitual and then the less said and thought about it the better.

Ever so often most people would profit by a complete moratorium on all rules. The proper diet can be most enjoyable and the profits in repose and security are great. Water should be drunk before meals but not during or afterward; a drink of hot water for a tired man, with five minutes rest upon a blanket, flat upon the floor, before dinner, is worth more than two cocktails, and it does not leave one flat later.

A big breakfast, a small lunch, and less dinner is a good guide seldom followed. Eat nothing when tired, worried or angry. Simplify meals; avoid pickled, smoked and spiced food. Starch and sugar are hexatomic alcohols; they give quick energy but are common sources of indigestion, obesity and worse.

The next fad in dietetics is likely to be monomeals—i.e., one kind of food at each meal, for example three eggs for breakfast, three oranges for lunch and three chops for dinner.

Each fad contains a grain of truth puffed up with noise and wind; like popcorn expanded by heat and much noise, it looks well. Get your massage from your masseur but get your diet from your doctor.

Exercise is useful in three ways: (1) entertainment, (2) organic stimulation and (3) structural improvement. The most important of these is entertainment because it helps, as a rule, to bring the other results in its train.

Golf is at its best when played for fun, even with its moments of despair. It is bad for the man who makes it a gambling game, even if he is a gambling addict. It is bad for the man who plays too tensely, and especially bad for one who cannot stand the physical cost, and the man who worries about his non-audited health status. Every year this very good game gets the blame for a number of fatalities which should be laid at the door of stubborn, neglectful ignorance of the player.

The best golf has the ease of skill, the skill of ease, the smooth power of self-assurance, a calm philosophy of confident tomorrows and the bubbling boyhood of perennial youth somewhere within the golfer himself. Golf and business often mix well because golf gives opportunity for men to know each other on fundamental planes which are the cleanest. It always builds up a man where he lives, in his older, more organic processes of body and mind.

Golf will not cure protuberant abdomens, thin chests or slumping shoulders as quickly and as well as exercises properly prescribed to meet his individual needs. The wisest men know and use these and other exercises. In fact they know more and have more in the several departments of life and living, in terms of personal power and serenity unguessed by the uninitiated.

An audit is profitable to a business, a bank and a banker. And a health plan brings definite returns.

Reorganizing Closed Banks

(CONTINUED FROM PAGE 714)

made in the discretion of a majority of the board of directors. New deposits and new assets are segregated from assets belonging to a bank prior to its closing for the protection of the depositors and creditors holding claims against the respective assets.

A state bank in Ohio uses a plan which is summarized as follows:

> Depositor agrees to waive 40 per cent of his claim without interest, and to accept payment of interest at the rate of 4 per cent on the remaining 60 per cent of his deposit. The assets of the bank to the extent of said 40 per cent are to be trusteed for the benefit of depositors, and the proceeds therefrom to be paid from time to time to depositors until liquidation is completed. Stockholders do not participate in dividends until depositors are paid in full. Undivided profits are credited to trust fund. Provision is made that entire capital stock be trusteed without releasing stockholders from liability. Stockholders agree not to make transfers for purposes of evading such liability. Sixty per cent of deposits which are not trusteed shall be released in such amount and at such time as may be decided upon by a joint committee of directors and depositors.

The office of the comptroller of the currency in the last several years has approved a great number of reorganizations, hardly any two of which have been identical as to details. The experiences of this office set forth in a recent letter of Hon. F. G. Awalt, Deputy Comptroller, should prove very helpful. He writes as follows:

"The basic principles of any of such plans have been first, the restoration of the suspended bank to solvency, and second, the recapitalization of said bank or the organization of a new bank for the purpose of acquiring the assets and assuming the liabilities of said suspended bank. The manner in which this is accomplished in each case depends upon the circumstances and the ability of the parties interested in raising the necessary funds. We have recently, in view of conditions, approved waiver plans, by which the creditors definitely write off a certain percentage of their claims to accomplish the restoration of the bank to solvency. Such plans have been used very generally by the state banking departments in most of the states.

"We, frankly, do not regard reorganizations by waivers on the part of creditors as desirable. We fear that banks which reorganize under such a plan do not retain the good will of their customers and that such banks cannot hope to attract a great amount of new business. We have not been following such plans for a sufficient length of time to have arrived at any definite conclusion in this respect. In a few instances we have had banks which have re-opened under such plans fail a second time, but we do not know whether the fact that waivers were used is responsible for their second failure.

"The plan which we have used most successfully is what is known as the 'Spokane Plan.' This plan contemplates the sale of good and acceptable assets to a going bank in the same community for an amount sufficient to enable the receiver to pay a substantial first dividend to the creditors, such payment being made by credit on the books of the purchasing bank subject to immediate withdrawal, or on such terms as may be agreed upon by the individual creditors. Of the assets so purchased, the bills receivable are taken at face value, plus accrued interest, the securities are purchased at market value and the real estate at an appraised value. The assets not sold remain in the receiver's hands and the proceeds thereof, together with the proceeds of a stock assessment are available to the purchasing bank in exchange for acceptable bills receivable purchased by it. In this way the purchasing bank is protected for a reasonable length of time against loss in the assets so purchased. It has been our experience that a substantial percentage of the deposits so set up on the books of the purchasing bank remain with that institution. In fact, the most recent case, that of the sale of a portion of the assets of the Bank of Pittsburgh, to the First National Bank of Pittsburgh, was most satisfactory to the purchaser in that it lost only about 5 per cent of the credits set up on its books."

Symptoms Revealing the Bankrupt

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The other cause which shouts its warning to the banker is the personal extravagance of the applicant. Sumptuous living and bank loans are an emulsion which no banker should encourage. Before reaching into the higher strata of livelihood the applicant should have earned the income to make this high standard possible and demonstrated a capacity to live sufficiently within it to accumulate an ample protective equity in his business.

Here, then, are the six definite and direct danger signals which the average client waves at his banker:

1. The failure to keep adequate records of his business.
2. The failure to take inventories.
3. A large proportion of business done on a credit basis.
4. Heavy losses on credit business.
5. Speculation outside business.
6. Personal extravagance.

It is significant that the investigators in a number of cases placed the responsibility for losses on the creditors for their failure to note certain of these signs which shouted for recognition before credit was granted.

The banker may be interested to know that one cause very prominently mentioned in the past as cause for failures has been unduly exaggerated. This is the lack of capital. It is the result of applying to business ailment a discernment similar to that of the amateur coroner who pronounced the cause of death to be a failure of the victim's heart to continue beating. Unquestionably at the time of failure there is a lack and often a total absence of capital.

This is not the cause of failure but rather one of the inevitable consequences of other cardinal causes. Poor business methods and defective business judgment combine to dissipate capital energy and leave the enterprise in a weakened condition. The existence of any capital at the end itself implies an excess of assets over liabilities. As we have already indicated, this condition rarely obtains.

The banker's stake in business failures may be noted from the contribution which he makes to the original capital of these enterprises and his position as a creditor at the time of failure.

SOURCE OF CAPITAL OF FAILED BUSINESS ESTABLISHMENTS

Banks	18.2 per cent
Owner	45.2
Wholesalers, Jobbers and Manufacturers	16.9
Friends or Relatives	11.3
Fixtures Bought on Installment Plan	4.8
All Others	3.6

CREDITORS AT TIME OF FAILURE

Banks	20.2 per cent
Wholesalers, Jobbers and Manufacturers	35.8
Individuals	15.1
Taxes, Rent, etc.	6.6
All Others	22.3

The causes of failure here mentioned operate during prosperity no less than during depression. When business is booming, abuses of sound principles may continue longer without exacting retribution. Even during 1928 and 1929 the liabilities of bankrupt enterprises approached an annual aggregate of $600,000,000. Undoubtedly hard times push some individuals and some concerns to that legal confession of inability to pay which constitutes bankruptcy.

Behind the Bond News

(CONTINUED FROM PAGE V)

covered last summer, American banks and banking houses made substantial cash advances, other than acceptance credits, to many foreign countries pending the return of market conditions favorable for long-term financing. It is not possible to know what the aggregate amount of these cash advances was, but it cannot be gainsaid that they increased importantly in both 1929 and 1930.

The figures show, on the other hand, that Britain's short-term advances for foreign account not only did not increase, but actually declined. The Macmillan report states that in the year ended December, 1929, sterling acceptances on foreign account declined from £200,509,000 to £175,677,000, a drop of £24,832,000. As in the case of the United States, it is not known what Britain did in cash advances that year, although the evidence afforded by its acceptance business would seem to indicate that this type of advance also declined. It is Britain's contention that she was not able to fill her normal rôle in foreign financing because of the credit and tariff policies of the United States and France. There is much to be said for this contention, but at the same time the charge is not fair that American bankers did not make a strong effort to preserve exchange equilibrium by doing in the short-term field what could not be done in the long-term market.

FOREIGN SHORT-TERM BALANCES

WE come now to a consideration to which insufficient weight is given by foreign critics of this country's foreign loan activities. It is a condition over which this country had utterly no control. This was the virtual nullification of the effects on the exchange market of America's foreign lending by the heavy inflow of foreign short-term balances to this market. The exact data on what this inflow amounted to have been gathered by the Federal Reserve but are not publicly available.

For evidence on this trend one must depend on a few figures that are made public. We know that dollar acceptances bought by foreign central banks through the Federal Reserve increased in 1929 from $325,000,000 to $548,000,000. On the assumption that the increase in this type of acceptance purchase was due to the inflow of fresh funds from abroad, it can be seen that the operations of foreign banks of issue were enough to counterbalance, with a margin to spare, the known $204,000,000 increase in foreign short-term lending by American banks.

Last year when the Federal Reserve was trying rather desperately to encourage exports of funds on both short and long term and to discourage further capital imports, its labors were set at naught by the continued inflow of foreign money. Early in May, 1931, the Federal Reserve Bank of New York cut its re-discount rate to 1½ per cent, the lowest figure in central banking annals, in an effort to ward off further imports of foreign funds and to induce foreigners to take their funds home.

Just how much success the System had in this endeavor is evidenced by the fact that when Great Britain left the gold standard in September, foreign central banks alone had some $1,800,000,000 of funds here, according to figures from Basle. If these funds had been repatriated the effect on the dollar would have been the same as nearly two years of foreign lending at the 1925-1928 average.

If foreign countries insist, as they did

up to September of last year, in sending their funds to this country for safekeeping, the abnormal strength of the dollar can be attributed not so much to the erratic lending habits of the United States as to the grave political and financial unrest which grips the world. It is as if the world wanted the United States to supply it with working capital and then underwrite its deposits. The lending policy of this country cannot be attacked with impunity so long as the rest of the world will not take home and employ the funds it has. A start was made in that direction last September, but then it was too late.

It would be extremely unwise if London and New York copied Paris by infusing foreign loans with politics. But from the French example there can be gained the lesson of the virtues of restraint in foreign lending. For governmental control we can substitute voluntary restraint, because only in that way can the reputation of banking houses be built up and maintained and the interests of both creditor and debtor be best served. And in spite of the numerous defaults and the criticism of American international bankers voiced in Washington, we must inevitably resume foreign lending.

Statement of Ownership

¶STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, of AMERICAN BANKERS ASSOCIATION JOURNAL, published monthly at New York, N. Y., additional entry at Greenwich, Conn., for Apr. 1, 1932.

¶State of New York, county of New York, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared L. E. Lascelle, who, having been duly sworn according to law, deposes and says that he is the business manager of the AMERICAN BANKERS ASSOCIATION JOURNAL and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

¶1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 22 East 40th Street, New York, N. Y.; editor, F. N. Shepherd, 22 East 40th Street, New York, N. Y.; managing editor, William R. Kuhns, 22 East 40th Street, New York, N. Y.; business manager, L. E. Lascelle, 22 East 40th Street, New York, N. Y.

¶2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.) The American Bankers Association, 22 East 40th Street, New York, N. Y. (A voluntary unincorporated association of banks: Harry J. Haas, First National Bank, Philadelphia, Pa., president, and F. N. Shepherd, 22 East 40th Street, New York, N. Y., executive manager.)

¶3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: none.

¶4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

¶5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is.—(This information is required from daily publications only.)

L. E. LASCELLE,
Business Manager.

¶Sworn to and subscribed before me this 21st day of March, 1932.

¶Elizabeth Rautanen, Notary Public, Bronx County, New York Co. Clk's No. 1078, Reg. No. 2R45A; Bronx Co. Clk's No. 229, Reg. No. 3234B.

¶(Appointment expires March 30, 1932.)

EDITORIALS

(CONTINUED FROM PAGE 687)

Worse and More of It

THE trick of history which placed control of public finances where no one in particular could be held accountable is responsible for a good share of our present and prospective difficulties. It explains a feeling on the part of many Senators and Representatives today that they must vote for full payment of the veterans' bonus at a time when they certainly realize that such action would be disastrous. There may be some justification for the frequently expressed hope that Congress cannot always ignore the great weight of public opinion, but the trouble is that public opinion cannot invariably be relied upon to understand the country's fiscal problems. In fact the attitude of many citizens toward the Federal Treasury is like that of a child toward the story-book town where houses were made of sugar and the streets paved with fudge. They believe that the Government makes the money and can make all it wants.

The purpose of Section 7, Clause 1 of the Constitution was to protect the people from the extravagance of the executive. In actual practice it has always been the executive who can be found fighting on the side of economy against the reckless spending proclivities of the people's representatives. The reason for this is that the President symbolizes the national viewpoint and his political fortunes depend largely on his success in effecting economies on a national scale. The political fortunes of a member of Congress often depend on his getting as much for his constituency as possible.

Debts and Reparations

"LONDON is a man's town," wrote Henry Van Dyke, "there's power in the air; and Paris is a woman's town, with flowers in her hair." In politics and frequently in finance, France is a coquette against whom the instinctive sportsmanship and masculine business sense of America and England have little defense. The French people, in common with the rest of Europe, do not want to pay their debts to the United States. England, at least, knows why she does not want to pay, but France just stamps her foot and pouts.

Flattery failed to move Washington in the years just after the war, tears failed and now we are in for it. For the second time within a half year, the well-trained anvil chorus of several dozen

little four-page newspapers in Paris has launched a noisy campaign against the United States. The first occurred six months ago and was the overture to Premier Laval's visit to the United States and the latest bit of roguishness is timed with the arrival of Ambassador Mellon in London, the departure of Secretary Stimson for Europe and preparations for the Lausanne conference.

The unfortunate thing about these episodes is that they strengthen a feeling in this country that France would like to throw the United States off the gold standard whereas they are merely mischievous attempts to put us in a mood to forgive and forget the debts.

Similar methods almost brought England to terms before Chancellor Snowden struck back. It matters little that the Bank of France apparently has tried from time to time, without success, to discourage these tactics. One thing is certain—America cannot reply in kind for our newspapers would not print deliberately false reports of France and French institutions, even in the name of patriotism.

The Tax Fight to Balance the Budget

(CONTINUED FROM PAGE 726)

mainder from taxes on a wide range of luxuries' sales and business transactions —and pledged $200,000,000 of economies below the expenditure level fixed in the original 1933 budget.

The country breathed a sigh of relief and, consistent with accepted standards of human conduct, went blithely back to its sniping at particular provisions of the bill during the course of its consideration in the Senate. In view of recent events it is unlikely that the criticisms again will assume sufficient proportions to compel the revamping of the basic provisions a second time. There is small appetite for re-opening the issue of whether the budget is to be balanced. That gives rise to the belief that the Senate, while it may change a rate or shift an excise tax from one article to another, will not alter again the fundamental characteristics of the bill.

It is not impossible, however, that the mounting demand of recent months for balancing the budget more by economies and less by increased taxes may compel the voting of additional budget cuts, with consequent easing of the scope and rates of proposed taxes.

The spending side of the 1933 budget is an interesting study in itself. When submitted by the President and the Budget Bureau, it contemplated appropriations $369,000,000 under the 1932 level. This saving represented some moderate retrenchment of operating costs, but much more largely the lapsing of non-recurrent emergency items and the postponement of items—such as for payment of bonus loans—which may have to be financed in the first deficiency bill after the election. From that standpoint, although they are material factors in balancing the budget at the moment, many of the "economies" embraced in the $369,000,000 are ostensible rather than real, although no claim that they are otherwise has been advanced in their behalf.

In passing the revenue bill, the House promised further retrenchment of $200,000,000. Of this amount, $113,000,000 had been achieved in supply bills already passed. Considerable portions of the $113,000,000—such as the reduction by another $50,000,000 of the amount for veterans' loans—are paper economies and not real reduction of expenditures. Just where the additional $87,000,000 was to come from—and the Secretary of the Treasury had expressed skepticism on that point in appraising the House bill—had not been determined upon in early April.

Perhaps the greatest virtue of the proposed law is the hidden one of bringing the issue of Federal expenditures into the open where it may be generally understood and dealt with appropriately. Free spending for purposes of doubtful propriety or value has been encouraged out of all reason in the past, for a time by the presence of Treasury surpluses so large that any proposed expenditure seemed insignificant, and more recently by financing expenditures through debt rather than tax transactions, tending to obscure the fact that every dollar which the Government spends has to be earned and paid in taxes by someone either now or later.

CONVENTION CALENDAR

DATE 1932	STATE ASSOCIATION	PLACE
May 5- 6	North Carolina	Pinehurst
May 10-12	Texas	Austin
May 12-14	New Jersey	Atlantic City
May 13	New Hampshire	Manchester
May 13-14	New Mexico	Taos
May 13-14	Oklahoma	Tulsa
May 17-18	Missouri	Excelsior Springs
May 17-19	Pennsylvania	Pittsburgh
May 18-19	Maryland	Atlantic City
May 19-20	Alabama	Mobile
May 19-20	Indiana	Indianapolis
May 19-20	Kansas	Kansas City
May 23-25	Illinois	Springfield
May 24-26	Tri-States Convention (Mississippi, Arkansas, Tennessee)	Memphis, Tenn.
May 26-27	West Virginia	Fairmont
May 26-28	California	San Francisco
June 1- 3	South Dakota	Watertown
June 2- 3	South Carolina	Columbia
June 3- 4	Florida	Jacksonville
June 6- 7	Oregon	Eugene
June 9-11	Washington	Pullman
June 9-11	District of Columbia	Hot Springs, Va.
June 13-14	Idaho	
June 13-15	New York	Rye
June 14-16	Minnesota	St. Paul
June 15-16	North Dakota	Grand Forks
June 17-18	Colorado	Evergreen
June 17-18	Utah	Salt Lake City
June 18	Maine	South Poland
June 20-22	Iowa	Des Moines
June 23-24	Wisconsin	Milwaukee
June 23-25	Virginia	Old Point Comfort
June 25-26	Connecticut	New London
July 11-13	Michigan	Mackinac Island
July 22-23	Montana	Glacier Park
Sept. 2- 3	Wyoming	Rawlins

AMERICAN BANKERS ASSOCIATION MEETINGS

June 6-10	A. I. B. Convention	Los Angeles, Cal.
Sept. 29-Oct. 1	Tenth Regional Trust Conference	Los Angeles, Cal.
Oct. 3- 6	A. B. A. Convention	Los Angeles, Cal.

This Month's Contributors

W. ESPEY ALBIG is Deputy Manager of the American Bankers Association and Secretary of the Savings Division. This is his second and concluding article on country banks.

GEORGE E. ANDERSON makes it his business to keep in close touch with Washington legislative and financial trends. He lives in Washington and is a frequent contributor to the JOURNAL.

JAMES E. BAUM is Deputy Manager of the American Bankers Association in charge of the Protective Section and is Secretary to the Insurance Committee.

JOHN HANCOCK CALLENDER knows about buildings practically from his association with a prominent New York architectural firm and as a former editor of Architectural Record.

C. WARD CRAMPTON is director of the Diagnostic Health Clinic, Post Graduate Medical School and Hospital in New York City.

W. S. COUSINS made a survey of bank directorships for the JOURNAL. He has had long experience in financial writing and was formerly financial editor of the International News Service.

MORRIS EDWARDS is an ex-Hoosier, now a Washingtonian, and is in the thick of the tax and budget question in his work in the finance division of the U. S. Chamber of Commerce.

WILLIAM P. HELM is a Washington journalist with a record of success in telling the story back of the news both in the United States and abroad.

L. INGELSTROM was the lone clerk of the old bank in Peterborough of which she writes.

JOSEPH STAGG LAWRENCE, a frequent contributor, makes it his business to write of important financial questions both in books and articles.

HERBERT MANCHESTER is a writer on the historical background of economics.

ALFRED REEVES is vice-president of the National Automobile Chamber of Commerce.

GILBERT T. STEPHENSON is vice-president of the Equitable Trust Company of Wilmington, Delaware.

H. N. STRONCK is a consultant on problems of bank management. Chicago is his headquarters.

THOMAS B. PATON, Jr. is Assistant General Counsel of the American Bankers Association.

Banker-Farmer

W. S. Guilford, of the trust department of the California National Bank, Sacramento, spoke recently before agricultural students of the University of California, describing the value of cooperation between bankers and farmers.

"Select your banker carefully," said Mr. Guilford. "Make the banker your life-long friend and a big asset in your business. Insist that your banker start a credit file for you, and furnish him with information to keep your financial history complete."

INDEX TO ADVERTISERS

MAY, 1932

How Many Can You Answer?

These questions were taken verbatim from the examination requirements of the American Institute of Banking

Knowledge is power, in banking as in other lines of pursuit. These questions pertain to ordinary, every-day banking practice. You think you know the answers, but do you? Try them and see. Perhaps, too, they may provide an interesting and instructive half hour or longer for other members of your bank's staff.

This is the third set of questions published recently in the JOURNAL. Others appeared in March and April.

1. X agreed in writing to purchase ten shares of stock from the promoters of the A corporation for $1,000. Before the corporation was organized, X notified the promoters to cancel his subscription. Later the A corporation sued X for the $1,000. The stock was then worth $900 on the market. Should the A corporation recover $1,000, $900, $100 or nothing? Give reasons.

2. John Smith, a gentleman of leisure, gives a banquet to ten of his friends at a total cost of $1,000. Henry Brown, a manufacturer, who maintains in his plant a restaurant for his employees, spends $1,000 in one day for dinners for 2,000 of his employees. Compare the economic results of the two expenditures.

3. After the maturity of a negotiable instrument which had not been duly presented, the defendant indorser admitted his responsibility which he shared with others. Did the making of such an admission constitute a waiver of presentment and notice of dishonor and therefore excuse the holder from duly making presentment and serving notice of dishonor to this indorser?

4. Jones, a real estate broker, made an exchange of real estate between White and Green. He had been employed by both to find a buyer for the one and a seller for the other. Without the knowledge of either, he charged a commission to both and now seeks to recover from both. May he?

5. Company X borrows $100,000 as follows:

Trade Acceptances for merchandise	$ 25,470.00
Accounts payable	17,530.00
Notes to officers of Company X	17,000.00
Note to A National Bank (secured)	20,000.00
Note to B State Bank (unsecured)	20,000.00
	$100,000.00

Company Y borrows $100,000 as follows:

Accounts payable	$ 30,000.00
Note to B State Bank (unsecured)	70,000.00
	$100,000.00

Assuming that other conditions are similar in each statement, which company is following the better principle? What makes you think so?

6. The holder of a negotiable promissory note indorsed it in the following manner, "I hereby assign all of my right, title, and interest to John Green. George White". At maturity the maker refused to pay, claiming as a defense, lack of capacity. The holder sues George White. Should recovery be allowed?

7. (a) What physical conditions of the United States have assisted us in our industrial development?
(b) What factors determine the value of land?

8. What is the usual practice regarding lost certificates or bonds?

9. A sold ten shares of the United States Steel Corporation to B, but in delivering the certificate he forgot to indorse it. B tries to get the stock transferred to his name but without success, since it is not indorsed by the former owner. What are his rights?

10. "Persons engaged in marketing and merchandising are unproductive. They are mere parasites upon the real producers of wealth". Do you agree? Explain why or why not.

11. (a) Name as many kinds of qualified acceptances as you can remember.
(b) If the drawee of a bill of exchange refuses to accept the instrument for the full amount but offers to accept for one-half the amount, can the holder recover the full amount from the indorsers? If so, what steps must he take first?

12. It is claimed that rent does not enter into prices. Do you agree? Why? or why not?

13. (a) Name four requirements for a good system of taxation.
(b) Discuss one tax from the point of view of these requirements.

14. Jones was the holder of a note signed by Rosenberg for $2,000. At maturity Rosenberg offered to pay $500 cash and give Jones a new note for $1,500. Was there any consideration for the $1,500 note? Explain.

15. (a) Why is the problem of farm management full of difficulties?
(b) Point out two ways of lessening the evils threatened by the rapid use of (1) our timber; (2) our petroleum.